

NEW ISSUE – (FULL BOOK-ENTRY)**See “RATINGS” herein.**

In the opinion of Bond Counsel to Metropolitan, interest on the 2021A Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel is further of the opinion that interest on the 2021A Bonds is exempt from personal income taxes of the State of California (the “State”) under present State law. See “TAX MATTERS” herein.

**\$222,160,000****THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A
(Federally Taxable)****Dated, Priced and Due as set forth on the inside cover hereof**

The Metropolitan Water District of Southern California (“Metropolitan”) is issuing its \$222,160,000 Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A (Federally Taxable) (the “2021A Bonds”) for the purpose of refunding a portion of Metropolitan’s outstanding Subordinate Bonds and other Subordinate Obligations and to pay costs of issuance of the 2021A Bonds. See “PLAN OF REFUNDING.” Capitalized terms used on this cover page not otherwise defined will have the meanings set forth herein.

The 2021A Bonds will be dated their date of delivery and will mature as shown on the inside cover hereof. The 2021A Bonds will initially bear interest in the Weekly Mode and will initially be designated as Liquidity Supported Bonds under the Paying Agent Agreement. The 2021A Bonds will be issued as fully registered bonds, in denominations of \$100,000 or any integral multiples of \$5,000 in excess thereof while accruing interest in the Weekly Mode. Interest on the 2021A Bonds, while in the Weekly Mode, will be payable on the first Business Day of each month, commencing on August 2, 2021. See “DESCRIPTION OF THE 2021A BONDS.”

Metropolitan may change the Interest Mode of the 2021A Bonds; provided, however, that all of the 2021A Bonds must accrue interest in the same Interest Mode or at a Fixed Interest Rate. **This Official Statement describes the terms of the 2021A Bonds only while they bear interest in the Weekly Mode and while they are Liquidity Supported Bonds. Prospective investors in the 2021A Bonds must not rely on this Official Statement while the 2021A Bonds bear interest in any other Interest Mode or if they become Self-Liquidity Bonds.**

The 2021A Bonds will be subject to optional and mandatory sinking fund redemption prior to maturity. The 2021A Bonds are also subject to optional and mandatory tender for purchase. See “DESCRIPTION OF THE 2021A BONDS – Redemption of 2021A Bonds” and “– Tender and Purchase of 2021A Bonds.”

While the 2021A Bonds are Liquidity Supported Bonds, payment of the purchase price of tendered 2021A Bonds will be payable from the proceeds of remarketing of the 2021A Bonds, and, to the extent remarketing proceeds are insufficient, initially from amounts made available under the Standby Bond Purchase Agreement for the 2021A Bonds, dated as of June 1, 2021 (the “Liquidity Facility”), by and between Metropolitan and Bank of America, N.A. (the “Liquidity Provider”), subject to the terms and conditions set forth therein, and thereafter from such Alternate Liquidity Facility as may be obtained by Metropolitan to provide for payment of the purchase price of the 2021A Bonds. The initial Liquidity Facility terminates on June 13, 2025, unless extended or terminated sooner in accordance with its terms. See “THE LIQUIDITY FACILITY.”

The obligation of the Liquidity Provider to purchase 2021A Bonds tendered by the Owners thereof or subject to mandatory purchase may be terminated or suspended without notice. In such event, sufficient funds may not be available to purchase the 2021A Bonds tendered by the Owners thereof or subject to mandatory purchase. The Liquidity Facility will not guarantee the payment of principal of or interest on any of the 2021A Bonds in the event of non-payment of such principal or interest by Metropolitan. See “THE LIQUIDITY FACILITY.”



The 2021A Bonds are special limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt (which includes Senior Bonds and Senior Obligations) heretofore or hereafter issued or incurred by Metropolitan and on parity with other Subordinate Bonds and First Tier Parity Obligations heretofore or hereafter issued or incurred by Metropolitan as described herein. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described herein. As of May 1, 2021, Metropolitan had outstanding \$2.58 billion aggregate principal amount of Senior Bonds, as well as certain other Senior Obligations, payable from Net Operating Revenues prior to the payment of the 2021A Bonds. As of May 1, 2021, Metropolitan had outstanding \$1.36 billion aggregate principal amount of Subordinate Bonds (including the Subordinate Bonds to be refunded with a portion of the proceeds of the 2021A Bonds), as well as certain other Subordinate Obligations (including the Subordinate Obligations to be refunded with a portion of the proceeds of the 2021A Bonds), payable on parity from Net Operating Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS.” See also “PLAN OF REFUNDING.”

The 2021A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2021A Bonds or the interest thereon. The obligation to pay the principal of and interest on the 2021A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except Net Operating Revenues as described in this Official Statement.

The 2021A Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Nixon Peabody LLP. Certain legal matters will be passed upon for Metropolitan by its General Counsel, for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, and for the Liquidity Provider by Chapman and Cutler LLP. Stradling Yocca Carlson & Rauth, a Professional Corporation, is acting as Disclosure Counsel to Metropolitan in connection with the issuance of the 2021A Bonds. Backstrom McCarley Berry & Co., LLC is serving as Municipal Advisor to Metropolitan in connection with the issuance of the 2021A Bonds. Metropolitan anticipates that the 2021A Bonds will be available for delivery through the facilities of The Depository Trust Company by Fast Automated Securities Transfer (FAST) on or about June 16, 2021.

BofA Securities

Dated: June 15, 2021

SUMMARY OF THE OFFERING

\$222,160,000

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A
(Federally Taxable)**

Dated:	Date of Delivery
Due:	July 1, 2042
Initial Interest Mode:	Weekly Mode
Initial Interest Payment Date:	August 2, 2021
Price:	100%
CUSIP [†] :	59266TTK7
Remarketing Agent:	BofA Securities, Inc.
Liquidity Provider:	Bank of America, N.A.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by S&P Global Market Intelligence. CUSIP numbers have been assigned by an independent company not affiliated with Metropolitan and are included solely for the convenience of the holders of the 2021A Bonds. None of Metropolitan, its Municipal Advisor or the Underwriter is responsible for the selection or use of these CUSIP numbers and no representation is made as to their correctness on the 2021A Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2021A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the 2021A Bonds.

**MAJOR WATER CONVEYANCE FACILITIES
TO SOUTHERN CALIFORNIA**



THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
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West Basin Municipal Water District
GLORIA D. GRAY
HAROLD WILLIAMS

Western Municipal Water District of Riverside County
BRENDA DENNSTEDT

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Management

JEFFREY KIGHTLINGER
General Manager⁽¹⁾

MARCIA SCULLY
General Counsel

GERALD C. RISS
General Auditor

ABEL SALINAS
Ethics Officer

DEVEN UPADHYAY
*Assistant General Manager/
Chief Operating Officer*

SHANE CHAPMAN
*Assistant General Manager/
Chief Administrative Officer*

KATANO KASAINE
*Assistant General Manager/
Chief Financial Officer*

DEE ZINKE
Assistant General Manager/Chief External Affairs Officer

ROSA A. CASTRO
Board Executive Secretary

Special Services

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a Professional Corporation
San Diego, California

Municipal Advisor

Backstrom McCarley Berry & Co., LLC
San Francisco, California

Fiscal Agent

Katano Kasiane
Metropolitan Treasurer

Paying Agent

Wells Fargo Bank, National Association
Los Angeles, California

⁽¹⁾ In March 2020, Mr. Kightlinger announced his retirement. Mr. Kightlinger will continue as General Manager until a successor assumes the position of General Manager of Metropolitan. On June 8, 2021, Metropolitan's Board of Directors approved the terms of the employment contract for the appointment of Mr. Adel Hagekhalil as General Manager. Mr. Hagekhalil is expected to commence his service as Metropolitan's General Manager on July 6, 2021.

This Official Statement does not constitute an offer to sell the 2021A Bonds in any state to any person to whom it is unlawful to make such an offer in such state. This Official Statement is not to be construed as a contract with the purchasers of the 2021A Bonds. Metropolitan has not authorized any dealer, broker, salesperson or any other person to give any information or to make any representations other than those contained herein in connection with the offering of the 2021A Bonds, and if given or made, investors must not rely on such information or representations.

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

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

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

CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by S&P Global Market Intelligence, and are set forth herein for convenience of reference only. These data are not intended to create a database and do not serve in any way as a substitute for CUSIP Global Services. None of Metropolitan, its Municipal Advisor or the Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

The Liquidity Provider has no responsibility for the form and content of this Official Statement, other than solely with respect to the information describing the Liquidity Provider under the heading “THE LIQUIDITY PROVIDER” (other than the first paragraph thereunder), and has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein or omitted herefrom, other than solely with respect to the information describing itself under the heading “THE LIQUIDITY PROVIDER” (other than the first paragraph thereunder).

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

Metropolitan maintains a website and certain social media accounts. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2021A Bonds.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12 adopted by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement and should not be considered to be a complete statement of the facts material to making an investment decision. All terms used in this Summary Statement and not otherwise defined have the meanings given such terms elsewhere in this Official Statement, in APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS AND THE PAYING AGENT AGREEMENT” or in the Subordinate Resolutions or in the Paying Agent Agreement. Investors must read the entire Official Statement, including the Appendices, to obtain information essential to making an informed investment decision.

The Metropolitan Water District of Southern California

The Metropolitan Water District of Southern California (“Metropolitan”) is a metropolitan water district created in 1928 by a vote of the electorates of several southern California cities. Metropolitan’s primary purpose was and is to provide a supplemental supply of water for domestic and municipal uses and purposes at wholesale rates to its member public agencies. There are 26 member public agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan is governed by a 38-member Board of Directors (the “Board”), with each member agency having at least one representative on the Board. Representation and voting rights are based upon the assessed valuation of real property within the jurisdictional boundary of each member agency. Metropolitan imports water from two principal sources, the State Water Project in Northern California, via the California Aqueduct, and the Colorado River, via the Colorado River Aqueduct.

The mission of Metropolitan, as promulgated by the Board, is to provide its service area with adequate and reliable supplies of high quality water to meet present and future needs in an environmentally and economically responsible way.

For general information regarding Metropolitan, including information regarding Metropolitan’s operations and finances, see APPENDIX A—“THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA” and APPENDIX B—“THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITORS’ REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019 AND BASIC FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2021 AND 2020 (UNAUDITED).” For selected demographic and economic information on Metropolitan’s service area, see APPENDIX E—“SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

Economy of Metropolitan’s Service Area

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

Authorization for the 2021A Bonds

Metropolitan is issuing its Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A (Federally Taxable) (the “2021A Bonds”) pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Article 11 of Chapter 3 (commencing with Section 53580) and Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code (the “Act”), and Resolution 9199 adopted on March 8, 2016, as amended and

supplemented (the “Master Subordinate Resolution”), including, by Resolution 9200 adopted on March 8, 2016 (the “First Supplemental Subordinate Resolution”). The 2021A Bonds are further described in the Paying Agent Agreement, dated as of June 1, 2021 (the “Paying Agent Agreement”), by and between Metropolitan and Wells Fargo Bank, National Association (the “Paying Agent”), relating to the 2021A Bonds. The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Subordinate Bonds issued by Metropolitan pursuant to the Master Subordinate Resolution and any applicable supplemental subordinate resolutions thereto (collectively, the “Subordinate Resolutions”) are referred to in this Official Statement as the “Subordinate Bonds.” The 2021A Bonds when issued will be payable as to principal thereof and interest thereon on a parity with Metropolitan’s outstanding Subordinate Bonds and any additional Subordinate Bonds issued by Metropolitan under the Master Subordinate Resolution and with other outstanding and future obligations of Metropolitan payable on parity with the Subordinate Bonds (“First Tier Parity Obligations” and collectively with the Subordinate Bonds, “Subordinate Obligations”).

Metropolitan adopted Resolution 8329 on July 9, 1991, as amended and supplemented (the “Senior Debt Resolution”), authorizing the issuance of water revenue bonds (the “Senior Bonds”) and parity obligations (the “Senior Obligations” and together with the Senior Bonds, “Senior Debt”) payable and secured on a senior basis to the Subordinate Bonds to finance, or in connection with the financing of, the costs or improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Senior Debt Resolution. The 2021A Bonds when issued will be payable as to principal thereof and interest thereon on a basis subordinate to Metropolitan’s outstanding Senior Bonds and any additional Senior Bonds issued by Metropolitan under the Senior Debt Resolution and with other outstanding and future Senior Obligations of Metropolitan payable on parity with the Senior Bonds.

Purpose of the 2021A Bonds

Metropolitan is issuing the 2021A Bonds for the purpose of refunding a portion of Metropolitan’s outstanding Subordinate Bonds and other Subordinate Obligations and to pay costs of issuance of the 2021A Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.”

General Terms of the 2021A Bonds

The 2021A Bonds will be dated their date of delivery and will mature on July 1, 2042. The 2021A Bonds will initially bear interest in the Weekly Mode and will be initially designated as Liquidity Supported Bonds under the Paying Agent Agreement. The 2021A Bonds will be issued as fully registered bonds, in denominations of \$100,000 or any integral multiples of \$5,000 in excess thereof while accruing interest in the Weekly Mode. Interest on the 2021A Bonds, while in the Weekly Mode, will be payable on the first Business Day of each month, commencing on August 2, 2021. See “DESCRIPTION OF THE 2021A BONDS.”

Metropolitan may change the Interest Mode of the 2021A Bonds; provided, however, that all of the 2021A Bonds must accrue interest in the same Interest Mode or at a Fixed Interest Rate. **This Official Statement describes the terms of the 2021A Bonds only while they bear interest in the Weekly Mode and while they are Liquidity Supported Bonds. Prospective investors in the 2021A Bonds must not rely on this Official Statement while the 2021A Bonds bears interest in any other Interest Mode or if they become Self-Liquidity Bonds.**

Book-Entry Only

Metropolitan will issue the 2021A Bonds as fully registered bonds and will register the 2021A Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”).

DTC will act as securities depository for the 2021A Bonds. Upon receipt of payments of principal or interest, DTC is obligated to remit those payments to DTC's Direct Participants (as defined in APPENDIX F—"BOOK-ENTRY ONLY SYSTEM") for subsequent disbursement to each actual purchaser of an ownership interest in the 2021A Bonds. See APPENDIX F—"BOOK-ENTRY ONLY SYSTEM."

Redemption, Tender and Purchase of 2021A Bonds

The 2021A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. See "DESCRIPTION OF THE 2021A BONDS – Redemption of 2021A Bonds." In addition, the Owners of 2021A Bonds bearing interest at a Weekly Rate may elect to have their respective 2021A Bonds purchased on any Business Day, upon the delivery to the Paying Agent and the Remarketing Agent at least seven (7) days prior to the applicable purchase date of an irrevocable tender notice in the form described herein, at a price equal to the principal amount thereof plus accrued interest, if any, provided that a Suspension Event or Immediate Termination Event (as defined in the Liquidity Facility) shall not have occurred under the Liquidity Facility. See "DESCRIPTION OF THE 2021A BONDS – Tender and Purchase of 2021A Bonds – Optional Tender for Purchase" and "– Special Provisions for Liquidity Supported Bonds."

The 2021A Bonds are subject to mandatory tender for purchase at a Purchase Price equal to the principal amount thereof, plus accrued and unpaid interest to the purchase date (unless the purchase date is otherwise an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course), (i) in connection with the termination, expiration or replacement of the Liquidity Facility for the 2021A Bonds or a change in the designation of the 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, subject to conditions set forth in the Paying Agent Agreement, (ii) except in connection with a change from the Weekly Mode to the Daily Mode, on the effective date of a change in the Interest Mode of the 2021A Bonds (or, in accordance with the terms of the Paying Agent Agreement, on the day which would have been the effective date of a new Interest Mode had there not been a failure to deliver certain items when required under the Paying Agent Agreement which resulted in the Interest Mode of the 2021A Bonds not being changed), (iii) upon a conversion of the 2021A Bonds to a Fixed Interest Rate, and (iv) at Metropolitan's election. See "DESCRIPTION OF THE 2021A BONDS – Tender and Purchase of 2021A Bonds." See also "– The Liquidity Facility for the 2021A Bonds" below and "THE LIQUIDITY FACILITY" for a description of the extent of the Liquidity Provider's obligations to purchase the 2021A Bonds tendered but not remarketed. So long as the 2021A Bonds are Liquidity Supported Bonds, Metropolitan will have no obligation to purchase tendered 2021A Bonds from any of its assets other than amounts received from proceeds of remarketings and moneys furnished by or at the direction of the Paying Agent and received from the Liquidity Provider pursuant to the Liquidity Facility then in effect for the 2021A Bonds.

Security for the 2021A Bonds

The 2021A Bonds are special limited obligations of Metropolitan payable as to the principal thereof and interest thereon solely from and secured by a pledge of and lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt and on parity with other Subordinate Bonds and First Tier Parity Obligations. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described herein. As of May 1, 2021, Metropolitan had outstanding \$2.58 billion aggregate principal amount of Senior Bonds, as well as certain other Senior Obligations, payable from Net Operating Revenues prior to the payment of the 2021A Bonds. As of May 1, 2021, Metropolitan had outstanding \$1.36 billion aggregate principal amount of parity Subordinate Bonds (including the Subordinate Bonds to be refunded with a portion of the proceeds of the 2021A Bonds), as well as certain other Subordinate Obligations (including the Subordinate Obligations to be refunded with a portion of the proceeds of the 2021A Bonds). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS." See also "– Additional Indebtedness" below.

The 2021A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2021A Bonds or the redemption premium, if any, or the interest thereon. The obligation to pay the principal of and redemption premium, if any, and interest on the 2021A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues as described in this Official Statement.

Metropolitan will not fund a reserve fund for the 2021A Bonds.

Rate Covenant

Metropolitan covenants under the Master Subordinate Resolution that it will prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System which will provide Operating Revenues, together with any other revenues of Metropolitan and any amounts available in any Unrestricted Reserves of Metropolitan, at least sufficient to pay the following amounts: (1) Operating Expenses; (2) 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 (3) the interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Subordinate 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. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS – Rate Covenant."

Additional Indebtedness

Metropolitan covenants in the Master Subordinate Resolution that except for Senior Debt, no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the Outstanding Subordinate Bonds or First Tier Parity Obligations. On or about July 8, 2021, Metropolitan expects to issue additional Senior Bonds (its Water Revenue Refunding Bonds, 2021 Series B) for the purpose of refunding a portion of its outstanding Senior Bonds and then-outstanding Senior Obligations. See "INTRODUCTION – Other Refunding Transactions Being Undertaken by Metropolitan."

As provided in the Subordinate Resolutions, Metropolitan may issue additional Subordinate Bonds and First Tier Parity Obligations payable and secured on parity with the Outstanding Subordinate Bonds and the 2021A Bonds to finance the costs of improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Subordinate Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS – Additional Indebtedness under the Master Subordinate Resolution."

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a senior basis to the 2021A Bonds and the other Subordinate Bonds and other Subordinate Obligations. See Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations."

See "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings" for a discussion of potential additional Senior Debt and Subordinate Obligations that Metropolitan currently expects to issue or incur.

The Liquidity Facility for the 2021A Bonds

For so long as the 2021A Bonds bear interest at a Weekly Rate and the Liquidity Facility remains in effect, the Purchase Price of a 2021A Bond will be payable from the proceeds of remarketing of such 2021A Bond. If remarketing proceeds are insufficient, the Purchase Price will be payable initially from amounts available under the Standby Bond Purchase Agreement, dated as of June 1, 2021 (the “Liquidity Facility”), by and between Metropolitan and Bank of America, N.A. (the “Liquidity Provider”), subject to the terms and conditions set forth therein, and thereafter from such Alternate Liquidity Facility as may be obtained by Metropolitan to provide for payment of the Purchase Price of the 2021A Bonds. The initial Liquidity Facility terminates on June 13, 2025, unless extended or terminated sooner in accordance with its terms. See “THE LIQUIDITY FACILITY.”

The obligation of the Liquidity Provider to purchase tendered but not remarketed 2021A Bonds is subject to immediate suspension or termination without notice upon the occurrence of certain events under the Liquidity Facility. See “THE LIQUIDITY FACILITY.” Under the Paying Agent Agreement, an Alternate Liquidity Facility may be obtained by Metropolitan to provide for payment of the Purchase Price of the 2021A Bonds. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS AND THE PAYING AGENT AGREEMENT – THE PAYING AGENT AGREEMENT – Liquidity Facility and Alternate Liquidity Facility.”

The obligation of the Liquidity Provider to purchase 2021A Bonds tendered by the Owners thereof or subject to mandatory purchase may be immediately suspended or terminated without notice. In such event, sufficient funds may not be available to purchase such 2021A Bonds tendered by the Owners thereof or subject to mandatory purchase. The Liquidity Facility does not guarantee the payment of principal of or interest or redemption premium, if any, on the related 2021A Bonds in the event of non-payment of such interest, principal or redemption premium, if any, by Metropolitan. In addition, the Liquidity Provider has no obligation to pay any interest due on 2021A Bonds on any Interest Payment Date (as defined in the related Liquidity Facility) unless such interest is due in connection with an optional purchase or mandatory purchase of the 2021A Bonds as described herein. See “THE LIQUIDITY FACILITY.”

Remarketing Agent

Metropolitan has initially appointed BofA Securities, Inc., as the remarketing agent (the “Remarketing Agent”) for the 2021A Bonds under the terms of Remarketing Agreement, dated as of June 1, 2021 (the “Remarketing Agreement”), by and between Metropolitan and the Remarketing Agent. The Remarketing Agent may resign as remarketing agent or Metropolitan may remove the Remarketing Agent as remarketing agent for the 2021A Bonds in accordance with the terms of the applicable Remarketing Agreement. See “DESCRIPTION OF THE 2021A BONDS – Remarketing Agent.”

Continuing Disclosure

Metropolitan has agreed, in connection with the issuance of the 2021A Bonds, to provide or to cause to be provided to the Municipal Securities Rulemaking Board, through the EMMA System, certain annual financial information and operating data relating to Metropolitan and, in a timely manner, notice of certain events with respect to the 2021A Bonds. These covenants have been made in order to assist the Underwriter named on the cover page hereof in complying with Rule 15c2-12 (the “Rule”) adopted by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. See “CONTINUING DISCLOSURE” and APPENDIX H – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.”

Metropolitan has not failed in the previous five years to comply in all material respects with any previous undertaking to provide annual reports or notices of certain events in accordance with the Rule.

Miscellaneous

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

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OFFICIAL STATEMENT

\$222,160,000

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A (Federally Taxable)

INTRODUCTION

General; Purpose

This Official Statement (which includes the cover page and inside cover page hereof, the Summary Statement and appendices hereto) provides information concerning The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the sale by Metropolitan of its \$222,160,000 Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A (Federally Taxable) (the “2021A Bonds”).

Metropolitan is issuing the 2021A Bonds pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Article 11 of Chapter 3 (commencing with Section 53580) and Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code (the “Act”), and Resolution 9199 adopted on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including by Resolution 9200 adopted on March 8, 2016 (the “First Supplemental Subordinate Resolution”). The 2021A Bonds are further described in the Paying Agent Agreement, dated as of June 1, 2021 (the “Paying Agent Agreement”), by and between Metropolitan and Wells Fargo Bank, National Association (the “Paying Agent”), relating to the 2021A Bonds. The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Subordinate Bonds issued by Metropolitan pursuant to the Master Subordinate Resolution and any applicable supplemental subordinate resolutions thereto (collectively, the “Subordinate Resolutions”) are referred to in this Official Statement as the “Subordinate Bonds.”

Metropolitan adopted Resolution 8329 on July 9, 1991, as amended and supplemented (the “Senior Debt Resolution”), authorizing the issuance of water revenue bonds (the “Senior Bonds”) and parity obligations (the “Senior Obligations” and together with the Senior Bonds, the “Senior Debt”) payable and secured on a senior basis to the Subordinate Bonds to finance, or in connection with the financing of, the costs or improvements to the Water System (defined as the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water) or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Senior Debt Resolution.

Metropolitan is issuing the 2021A Bonds for the purpose of refunding a portion of Metropolitan’s outstanding Subordinate Bonds and other Subordinate Obligations (defined below) and to pay costs of issuance of the 2021A Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Security for the 2021A Bonds

The 2021A Bonds are special limited obligations of Metropolitan payable as to the principal thereof and interest thereon solely from and secured by a lien upon the Net Operating Revenues, subordinate to the lien thereon of Metropolitan’s outstanding Senior Bonds and any additional Senior Bonds issued by

Metropolitan under the Senior Debt Resolution and with other outstanding and future Senior Obligations of Metropolitan payable on parity with the Senior Bonds. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described in this Official Statement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS.” As of May 1, 2021, Metropolitan had outstanding \$2.58 billion aggregate principal amount of Senior Bonds, as well as certain other Senior Obligations, payable from Net Operating Revenues prior to the payment of the 2021A Bonds. Metropolitan’s outstanding Senior Bonds and Senior Obligations as of May 1, 2021 are described in Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations.”

The 2021A Bonds are payable as to the principal thereof and interest thereon from Net Operating Revenues on parity with Metropolitan’s other outstanding and future Subordinate Bonds issued by Metropolitan under the Master Subordinate Resolution and with other outstanding and future obligations of Metropolitan payable on parity with the Subordinate Bonds (“First Tier Parity Obligations” and, collectively with the Subordinate Bonds, “Subordinate Obligations”). As of May 1, 2021, Metropolitan had outstanding \$1.36 billion aggregate principal amount of parity Subordinate Bonds (including the Subordinate Bonds to be refunded with a portion of the proceeds of the 2021A Bonds), as well as certain other Subordinate Obligations (including the other Subordinate Obligations to be refunded with a portion of the proceeds of the 2021A Bonds). Metropolitan’s outstanding Subordinate Bonds and other Subordinate Obligations as of May 1, 2021 are described in Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations.”

Under the Master Subordinate Resolution, Metropolitan is not prohibited from issuing additional Senior Bonds and Senior Obligations payable and secured on a senior basis to the Outstanding Subordinate Bonds and the 2021A Bonds, except subject to the limitations, terms and conditions of the Senior Debt Resolution. As provided in the Subordinate Resolutions, Metropolitan may issue additional Subordinate Bonds and First Tier Parity Obligations payable and secured on parity with the Outstanding Subordinate Bonds and the 2021A Bonds, subject to the limitations, terms and conditions of the Master Subordinate Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS – Additional Indebtedness under the Master Subordinate Resolution.” See also “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings” for a discussion of potential additional Senior Debt and Subordinate Obligations that Metropolitan expects to issue or incur.

The 2021A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2021A Bonds or the interest thereon. The obligation to pay the principal of, redemption premium, if any, and interest on the 2021A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except Net Operating Revenues as described in this Official Statement.

Metropolitan will not fund a reserve fund for the 2021A Bonds.

Certain Terms of the 2021A Bonds; Liquidity Facility for the 2021A Bonds

As described herein, the 2021A Bonds are being initially delivered bearing interest at an Adjustable Interest Rate. The 2021A Bonds will initially be issued in the Weekly Mode during which the 2021A Bonds will bear interest at a Weekly Rate. The 2021A Bonds will be initially designated as Liquidity Supported Bonds under the Paying Agent Agreement. **This Official Statement describes the terms of the 2021A Bonds only while they bear interest in the Weekly Mode and while they are Liquidity Supported Bonds. Prospective investors in the 2021A Bonds must not rely on this Official Statement while the 2021A Bonds bear interest in any other Interest Mode or if they become Self-Liquidity Bonds.**

While bearing interest in the Weekly Mode, the 2021A Bonds are subject to optional and mandatory tender for purchase on the terms as described herein. So long as the 2021A Bonds are in the Weekly Mode and are Liquidity Supported Bonds, payment of the Purchase Price of tendered 2021A Bonds will be payable from the proceeds of remarketing of the 2021A Bonds. If remarketing proceeds are insufficient, the Purchase Price will be payable initially from amounts available under a Standby Bond Purchase Agreement, dated as of June 1, 2021 (the “Liquidity Facility”), by and between Metropolitan and Bank of America, N.A. (the “Liquidity Provider”), subject to the terms and conditions set forth therein, and thereafter from such Alternate Liquidity Facility as may be obtained by Metropolitan to provide for payment of the Purchase Price of the 2021A Bonds. The initial Liquidity Facility terminates on June 13, 2025, unless extended or terminated sooner in accordance with its terms. See “THE LIQUIDITY FACILITY.”

The obligation of the Liquidity Provider to purchase tendered but not remarketed 2021A Bonds is subject to immediate suspension or termination without notice upon the occurrence of certain events under the Liquidity Facility. In such event, sufficient funds may not be available to purchase the 2021A Bonds tendered by the Owners thereof or subject to mandatory purchase. The Liquidity Facility does not guarantee the payment of principal of or interest or redemption premium, if any, on the 2021A Bonds in the event of non-payment of such interest, principal or redemption premium, if any, by Metropolitan. In addition, the Liquidity Provider has no obligation to pay any interest due on the 2021A Bonds on any Interest Payment Date unless such interest is due in connection with an optional purchase or mandatory purchase of the 2021A Bonds as described herein. See “THE LIQUIDITY FACILITY.”

Remarketing Agent

BofA Securities, Inc. has initially been appointed remarketing agent (the “Remarketing Agent”) for the 2021A Bonds under the terms of a Remarketing Agreement, dated as of June 1, 2021 (the “Remarketing Agreement”), by and between Metropolitan and the Remarketing Agent. BofA Securities, Inc. is a broker-dealer registered with the Securities and Exchange Commission (the “SEC”), a member of the Financial Industry Regulatory Authority (“FINRA”), a member of the Municipal Securities Rulemaking Board (“MSRB”) and the Securities Investors Protection Corporation (“SIPC”). FINRA has responsibility for SEC, MSRB and self-regulatory organizations related requirements and examines BofA Securities, Inc.’s activities on an annual basis. The principal office of the Remarketing Agent is One Bryant Street, 9th Floor, New York, New York 10036, Attention: Municipal Markets Department.

Certain Developments Regarding the Paying Agent

Wells Fargo Bank, National Association currently serves as the Paying Agent for the 2021A Bonds and performs its obligations in such role through its Corporate Trust Services (“CTS”) business. On March 23, 2021, Wells Fargo Bank, National Association announced that it had entered into a definitive agreement to sell substantially all of its CTS business to Computershare Ltd (“Computershare”). The transaction is expected to close in the second half of 2021, subject to customary closing conditions and regulatory approvals. Approximately 2,000 CTS employees are expected to transfer to Computershare as part of the sale.

Subject to any requirements set forth in the Paying Agent Agreement and in the definitive agreement between Wells Fargo Bank National Association and Computershare relating to the acquisition of Wells Fargo Bank, National Association’s CTS line of business, Wells Fargo Bank, National Association intends to transfer to Computershare its duties, obligations and rights as Paying Agent with respect to the 2021A Bonds on or after the date that Computershare’s acquisition of the Wells Fargo Bank, National Association CTS line of business is finalized.

Other Refunding Transactions Being Undertaken by Metropolitan

On or about July 8, 2021, Metropolitan expects to issue approximately \$96,745,000 (preliminary amount) of its Water Revenue Refunding Bonds, 2021 Series B (the “2021B Senior Bonds”) for the purpose of (a) refunding all or portions of the following outstanding Series of Metropolitan’s Senior Bonds: (i) Metropolitan’s Water Revenue Refunding Bonds, 2014 Series C-3 (the “2014C-3 Bonds”) and (ii) Metropolitan’s Water Revenue Refunding Bonds, 2011 Series C (the “2011C Bonds”); (b) redeeming certain notes issued by Metropolitan (which are Senior Obligations) evidencing a \$35,645,000 draw to be made by Metropolitan under the RBC Short-Term Revolving Credit Facility (as defined herein) on or before June 30, 2021 for the purposes of refunding \$35,645,000 principal amount of Metropolitan’s outstanding Subordinate Water Revenue Bonds 2017 Series B (the “2017B Subordinate Bonds”). See Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Bonds and Senior Parity Obligations.” See also “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings.

Miscellaneous; Summaries Not Definitive

This Introduction is not a summary of this Official Statement. This Introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents described herein. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California, including the Act, and any resolutions and documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions thereof. The source of information herein is Metropolitan unless otherwise stated. Capitalized terms used herein and not otherwise defined will have the meanings ascribed thereto in the Subordinate Resolutions. A summary of certain provisions of the Subordinate Resolutions and a list of selected defined terms are set forth in APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS AND THE PAYING AGENT AGREEMENT.”

PLAN OF REFUNDING

A portion of the proceeds of the 2021A Bonds will be applied on the date of delivery of the 2021A Bonds to prepay and redeem (a) Metropolitan’s \$175,000,000 outstanding Subordinate Water Revenue Bonds, 2016 Authorization Series A (the “2016A Subordinate Bonds”) and (b) Metropolitan’s \$46,800,000 outstanding Short-Term Revenue Refunding Certificates, Series 2019 A (the “2019A Subordinate Short-Term Refunding Notes”). See also Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Bonds.” A portion of the proceeds of the 2021A Bonds will also be used to pay the costs of issuing the 2021A Bonds.

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ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of proceeds of the 2021A Bonds, rounded to the nearest dollar, are shown below:

Estimated Sources of Funds:

Principal Amount of 2021A Bonds	<u>\$222,160,000</u>
Total	<u>\$222,160,000</u>

Estimated Uses of Funds:

Payment of the 2016A Subordinate Bonds ⁽¹⁾	\$175,000,000
Prepayment of the 2019A Subordinate Short-Term Refunding Notes ⁽²⁾	46,800,000
Underwriter's Discount	30,590
Costs of Issuance ⁽³⁾	329,410
Total	<u>\$222,160,000</u>

⁽¹⁾ Represents amounts for the payment of the principal of the outstanding 2016A Subordinate Bonds. Accrued interest to the date of prepayment will be paid from funds provided by Metropolitan.

⁽²⁾ Represents amounts for the payment of the principal of the outstanding 2019A Subordinate Short-Term Refunding Notes. Accrued interest to the date of prepayment will be paid from funds provided by Metropolitan.

⁽³⁾ Includes rating agency fees, Municipal Advisory fees, legal fees, printing costs and other costs of issuance.

DESCRIPTION OF THE 2021A BONDS

General

The 2021A Bonds will be dated their date of delivery and will mature on July 1, 2042. The 2021A Bonds are being initially delivered bearing interest at an Adjustable Interest Rate and, as further described below, will initially be issued in the Weekly Mode bearing interest at a Weekly Rate, and will initially be designated as Liquidity Supported Bonds under the Paying Agent Agreement. The 2021A Bonds are being issued as fully registered bonds, and while in the Weekly Mode, will be issued in denominations of \$100,000 or any integral multiples of \$5,000 in excess thereof.

The principal of, and premium, if any, on the 2021A Bonds will be payable in lawful money of the United States of America upon presentment and surrender of such 2021A Bond at the Corporate Trust Office of the Paying Agent. Interest on the 2021A Bonds is payable on each Interest Payment Date (as defined below) by the Paying Agent, by check mailed by first-class mail, postage prepaid, on the date on which such interest is due to the Owners of the 2021A Bonds as of the close of business on the Record Date in respect of such Interest Payment Date at the registered addresses of such Owners they appear on the Bond Register maintained by the Paying Agent. In the case of any Owner of 2021A Bonds in an aggregate principal amount in excess of \$1,000,000 as shown on the registration books kept by the Paying Agent who, prior to the Record Date next preceding any Interest Payment Date, has provided or caused to be provided to, the Paying Agent wire transfer instructions, interest payable on such 2021A Bonds will be paid in accordance with the wire transfer instructions provided by the Owner of such 2021A Bonds (or by the Remarketing Agent on behalf of such Owner). "Record Date" means with respect to 2021A Bonds bearing interest in the Weekly Mode, the Business Day immediately preceding each Interest Payment Date. Notwithstanding the foregoing, so long as records of ownership of the 2021A Bonds are maintained through DTC's book-entry system described under "- Book-Entry Only System" below, all payments to the actual purchasers of an ownership interest in the 2021A Bonds ("Beneficial Owners") will be made in accordance with the procedures described in Appendix F.

While the 2021A Bonds bear interest in any Interest Mode, the Paying Agent Agreement requires Metropolitan to designate the 2021A Bonds either as Liquidity Supported Bonds or Self-Liquidity Bonds. The designation of the 2021A Bonds as Liquidity Supported Bonds or Self-Liquidity Bonds will determine whether the Liquidity Provider or Metropolitan is responsible for the payment of the Purchase Price of tendered 2021A Bonds to the extent that remarketing proceeds are insufficient. As described above, Metropolitan has initially designated the 2021A Bonds as Liquidity Supported Bonds. While the 2021A Bonds are Liquidity Supported Bonds, the Liquidity Provider will bear the obligation to provide funds to pay the Purchase Price of tendered 2021A Bonds in accordance with the terms of the Liquidity Facility. See “THE LIQUIDITY FACILITY.” Metropolitan may elect to change the 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds pursuant to the provisions of the Paying Agent Agreement. See “—Liquidity Supported Bonds and Self-Liquidity Bonds” below.

There are a number of provisions in the Paying Agent Agreement relating to the terms of Bank Bonds (i.e., 2021A Bonds purchased by the Liquidity Provider pursuant to the Liquidity Facility) which are not described in this Official Statement. All references to the terms of the 2021A Bonds in this Official Statement describe only 2021A Bonds which are not owned by the Liquidity Provider unless expressly indicated herein.

Interest Rate Provisions

General. The 2021A Bonds will initially be issued in the Weekly Mode during which the 2021A Bonds will bear interest at a Weekly Rate until such time as Metropolitan designates a new Interest Mode for the 2021A Bonds or converts the 2021A Bonds to a Fixed Interest Rate as described below. Interest on the 2021A Bonds, while in the Weekly Mode, will be calculated on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed and will be payable on the first Business Day of each month, commencing on August 2, 2021. “Business Day” means a day (a) other than a Saturday or Sunday; (b) other than a day on which banking institutions are authorized or required by law or executive order to be closed for commercial banking purposes in the cities and states in which the principal corporate trust office of the Paying Agent or the Initial Liquidity Provider or the funding office of the Initial Liquidity Provider are located, and (c) on which the New York Stock Exchange is open for business. Interest on the 2021A Bonds will also be payable on (i) the effective date of a change in Interest Mode for the 2021A Bonds (or the day that would have been the effective date of a change in Interest Mode had one of the events specified in the Paying Agent Agreement as preventing such change in Interest Mode not occurred), (ii) the date of conversion of the 2021A Bonds to a Fixed Interest Rate, and (iii) the date of final maturity of the 2021A Bonds. Each such date on which interest on the 2021A Bonds is payable is referred to herein as an “Interest Payment Date.”

Metropolitan may, at any time, upon notice as described herein, change the Interest Mode on the 2021A Bonds to a different Interest Mode during which the 2021A Bonds may bear interest at an Adjustable Interest Rate (which pursuant to the Paying Agent Agreement may include a Daily Rate, a Weekly Rate, an Index Tender Rate, Bond Interest Term Rates or a Long Rate) or may convert the 2021A Bonds to a Fixed Interest Rate, upon the terms and conditions set forth in the Paying Agent Agreement. However, pursuant to the Paying Agent Agreement, at any given time, all 2021A Bonds must accrue interest in the same Interest Mode (which pursuant to the Paying Agent Agreement may be the Daily Mode, the Weekly Mode, the Flexible Index Mode, the Index Mode, the Short-Term Mode or the Long Mode) or at a Fixed Interest Rate. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS AND THE PAYING AGENT AGREEMENT” for definitions of certain terms relating to the various available Interest Modes for the 2021A Bonds.

This Official Statement describes the terms of the 2021A Bonds only while they bear interest in the Weekly Mode and while they are Liquidity Supported Bonds. Prospective investors must not rely

on this Official Statement while the 2021A Bonds bears interest in any other Interest Mode or if they become Self-Liquidity Bonds.

Determination of Weekly Rate. While the 2021A Bonds are in the Weekly Mode, such 2021A Bonds will bear interest at a Weekly Rate. On or before the date of delivery of the 2021A Bonds, the Remarketing Agent will determine the Weekly Interest Rate for the initial Weekly Rate Period for the 2021A Bonds, which Weekly Rate will apply to the period commencing on the date of delivery of the 2021A Bonds and ending on the next succeeding Wednesday. Thereafter, the interest rate payable with respect to the 2021A Bonds (other than Bank Bonds and District Bonds (as defined herein)) in a Weekly Mode will be determined by the Remarketing Agent by no later than 5:00 p.m. (New York City time) on Wednesday of each week during such Weekly Rate Period, or if such day is not a Business Day, then on the next preceding Business Day. The Remarketing Agent will give notice of each Weekly Rate by no later than the close of business on the Business Day next succeeding its day of determination.

The Weekly Rate will be the rate of interest per annum determined by the Remarketing Agent (in its reasonable judgement based upon then-prevailing market conditions) to be the minimum interest rate which, if borne by the 2021A Bonds would enable the Remarketing Agent to sell the 2021A Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Weekly Rate for any week, then: (i) the Weekly Rate for such week will be the same as the Weekly Rate for the immediately preceding week if the Weekly Rate for such preceding week was determined by the Remarketing Agent; or (ii) if no Weekly Rate for the immediately preceding week was determined by the Remarketing Agent, or in the event that the Weekly Rate determined by the Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such week shall be equal to the lesser of (a) 100% of the interest rate applicable to 13-week United States Treasury Bills (or then comparable Treasury obligations) determined on the basis of the average per annum discount rate at which such 13-week United States Treasury Bills (or then comparable Treasury obligations) have been sold at the most recent Treasury auction (or the comparable United States Treasury marketing transaction) as of the date of determination, plus 0.30%, or (b) the most recently available Secured Overnight Financing Rate (“SOFR”) as of the date of determination, plus 0.35%.

Any determination by the Remarketing Agent in accordance with the Paying Agent Agreement of the Weekly Rate payable with respect to the 2021A Bonds will be conclusive and binding on Metropolitan, the Fiscal Agent, the Paying Agent, and Liquidity Provider (together with the Remarketing Agent, the “Notice Parties”) and the Owners of the 2021A Bonds.

Maximum Interest Rate Limitation. Pursuant to the Paying Agent Agreement, in no event will the interest rate payable with respect to any 2021A Bond exceed the Maximum Interest Rate. “Maximum Interest Rate” means (a) with respect to 2021A Bonds (other than Bank Bonds and District Bonds) the lesser of (i) twelve percent (12%) per annum, or (ii) the maximum interest rate permitted by federal law and the laws of the State of California, (b) with respect to Bank Bonds, the maximum interest rate permitted under federal law and the laws of the State of California with respect to any obligation incurred by Metropolitan under the related Liquidity Facility; provided, however, that in no event will the “Maximum Interest Rate” exceed eighteen percent (18%); and (c) with respect to District Bonds, the maximum interest rate permitted by federal law and the laws of the State of California. “Bank Bond” or “Bank Bonds” means any 2021A Bond or 2021A Bonds purchased with moneys provided under the Liquidity Facility and any 2021A Bonds issued in exchange for or in replacement or substitution thereof. “District Bonds” means 2021A Bonds designated by Metropolitan to be Self-Liquidity Bonds or beneficial interests therein that Metropolitan purchases pursuant to the Paying Agent Agreement and the 2021A Bonds issued in exchange for and in replacement or substitution thereof; provided, however, that “District Bonds” does not include any 2021A Bonds that are Liquidity Supported Bonds that Metropolitan owns or any Self-Liquidity Bonds that Metropolitan purchases for its own account outside of and other than the purchase through the Payment

Agent Agreement of 2021A Bonds tendered pursuant to thereto as described under “– Tender and Purchase of 2021A Bonds” below.

Certain Circumstances in Which Maximum Interest Rate will Apply. If, while the 2021A Bonds bear interest in the Weekly Mode, the Remarketing Agent for the 2021A Bonds resigns and no successor has been appointed as of the effective date of such resignation, then the 2021A Bonds (other than Bank Bonds and District Bonds) will bear interest at the Maximum Interest Rate until Metropolitan appoints a successor Remarketing Agent. Solely with respect to the 2021A Bonds while the 2021A Bonds are Liquidity Supported Bonds, if, while the 2021A Bonds bear interest in the Weekly Mode, the obligation of the Liquidity Provider under the Liquidity Facility then in effect to purchase tendered Liquidity Supported Bonds has been terminated or suspended or there is otherwise no Liquidity Facility then in effect with respect to such Liquidity Supported Bonds, then such 2021A Bonds (other than Bank Bonds) will bear interest at the Maximum Interest Rate until a Liquidity Facility is in effect with respect to the Liquidity Supported Bonds or Metropolitan changes the designation of the 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds pursuant to the Paying Agent Agreement.

Change in Interest Mode or Conversion to Fixed Interest Rate

Change in Interest Mode. The Paying Agent Agreement permits Metropolitan to change the Interest Mode of the 2021A Bonds from the Weekly Mode to the Daily Mode, the Flexible Index Mode, the Index Mode, the Short-Term Mode or the Long Mode. If Metropolitan elects to change the Interest Mode of the 2021A Bonds, then Metropolitan will furnish written direction of such election to the Fiscal Agent, the Remarketing Agent, the Liquidity Provider and the Paying Agent by registered or certified mail or by Electronic Notice not less than eight (8) days prior to the effective date of the change in Interest Mode of the 2021A Bonds. Any such direction of Metropolitan shall specify the Interest Mode to which the 2021A Bonds are to be changed and, if applicable, shall be accompanied by the form of the notice required to be given by the Paying Agent as described under “– Tender and Purchase of 2021A Bonds – Notice of Mandatory Tender – Notice of Mandatory Tender Upon Change in Interest Mode” below.

Notwithstanding anything in the Paying Agent Agreement to the contrary, in connection with any change in the Interest Mode of the 2021A Bonds from the Weekly Rate to a Long Rate, Metropolitan will deliver to the other Notice Parties a Favorable Opinion of Bond Counsel on the effective date of such change. If bond counsel fails to deliver a Favorable Opinion of Bond Counsel on any such date, then the Interest Mode for the 2021A Bonds will not be changed, and the 2021A Bonds will continue to bear interest in the Weekly Mode as in effect immediately prior to such proposed change in the Interest Mode (and, will continue as Liquidity Supported Bonds or Self-Liquidity Bonds as in effect prior to such proposed change in Interest Mode). In such event, if notice of such change in Interest Mode has been given to the Owners of the 2021A Bonds as provided in the Paying Agent Agreement and Metropolitan fails to deliver a Favorable Opinion of Bond Counsel on the effective date as herein described, the 2021A Bonds will continue to be subject to mandatory purchase on the date which would have been the effective date of such change as provided in the Paying Agent Agreement; provided, however, that, notwithstanding anything in the Paying Agent Agreement to the contrary, unless the 2021A Bonds are Self-Liquidity Bonds prior to such proposed change, Metropolitan will have no liability or obligation to pay the Purchase Price of the 2021A Bonds so tendered.

Conversion to Fixed Interest Rate. The Paying Agent Agreement also permits Metropolitan to convert the interest rate on the 2021A Bonds to a Fixed Interest Rate. Metropolitan may exercise its option to convert the 2021A Bonds to the Fixed Interest Rate, by giving, not less than ten (10) days prior to the Fixed Rate Date, notice to the Fiscal Agent, the Remarketing Agent, the Liquidity Provider and the Paying Agent of its election to convert the interest payable with respect to the 2021A Bonds to a Fixed Interest Rate. Such notice shall specify the Fixed Rate Date, which may be any Business Day for which Owners may be given timely notice of conversion as described under “–Tender and Purchase of 2021A Bonds – Notice of

Mandatory Tender – *Notice of Mandatory Tender Upon Conversion to Fixed Interest Rate.*” Such notice shall be accompanied by a Favorable Opinion of Bond Counsel. Notwithstanding anything in the Paying Agent Agreement to the contrary, following the conversion of the 2021A Bonds to a Fixed Interest Rate, Metropolitan may not elect to adjust the interest rate on the 2021A Bonds from a Fixed Interest Rate to any other Interest Mode.

Redemption of 2021A Bonds

Optional Redemption. While in the Weekly Mode, the 2021A Bonds are subject to optional redemption by Metropolitan in whole or in part, in Authorized Denominations, on any date, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to such Redemption Date, without premium.

Mandatory Sinking Fund Redemption. The 2021A Bonds are subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2037 and on each July 1 set forth below, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from Mandatory Sinking Account Payments which have been deposited in the Bond Service Fund, in the principal amounts set forth as follows:

Redemption Date (July 1)	Principal Amount
2037	\$46,800,000
2038	33,510,000
2039	34,270,000
2040	35,055,000
2041	35,855,000
2042 [†]	36,670,000

[†] Final Maturity

Mandatory Sinking Account Payments for the 2021A Bonds will be reduced to the extent Metropolitan has purchased such 2021A Bonds and surrendered such 2021A Bonds to the Fiscal Agent for cancellation. If such 2021A Bonds have been so purchased and cancelled or if 2021A Bonds have been otherwise redeemed as provided in the Paying Agent Agreement, then the amount of the 2021A Bonds so purchased and cancelled or redeemed will be credited to such future Mandatory Sinking Account Payments as may be specified by Metropolitan. A reduction of Mandatory Sinking Account Payments in any twelve-month period ending July 1 will reduce the principal amount of 2021A Bonds subject to mandatory sinking fund redemption on that July 1.

Redemption on any Purchase Date. On any date on which 2021A Bonds are tendered for purchase pursuant to the Paying Agent Agreement, Metropolitan may, at its sole discretion (and without compliance with the notice provisions of the Paying Agent Agreement), redeem all or any portion of such 2021A Bonds tendered for purchase at a redemption price equal to the Purchase Price thereof. Any 2021A Bonds so redeemed will be cancelled as provided in the Paying Agent Agreement and will not be reissued or remarketed.

Selection of 2021A Bonds for Redemption. In the case of redemption of 2021A Bonds in part, the Paying Agent will select 2021A Bonds for redemption in the following order: *first*, the Paying Agent will select Bank Bonds for redemption before selecting any other 2021A Bonds for redemption; and *second*, the Paying Agent will select for redemption by lot all 2021A Bonds remaining Outstanding (other than District Bonds, if any, before selecting any District Bonds for redemption).

Notice of Redemption. Notice of redemption will be given by the Paying Agent by Mail or by Electronic Notice not less than twenty (20) nor more than forty-five (45) days prior to the Redemption Date to (i) the respective Owners of any 2021A Bonds designated for redemption at their addresses appearing on the register maintained pursuant to the Paying Agent Agreement (or, so long as such 2021A Bonds are Book-Entry Bonds, to DTC), (ii) the Remarketing Agent, (iii) the Liquidity Provider, (iv) the Fiscal Agent and (v) one or more Information Services (which currently, unless otherwise designated by Metropolitan, shall be the MSRB through the EMMA System). Each notice of redemption will state the date of such notice, the distinguishing designation of the 2021A Bonds to be redeemed, the date of issue of such 2021A Bonds, the Redemption Date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Paying Agent), the CUSIP number, if any, of the maturity or maturities and, and, in the case of 2021A Bonds to be redeemed in part only, the respective portion of the principal amount thereof to be redeemed. Each such notice will also state that on such date there will become due and payable with respect to each of such 2021A Bonds to be redeemed the redemption price thereof or of such specified portion of the principal amount thereof in the case of a 2021A Bond to be redeemed in part only, and that from and after such Redemption Date, the related interest due thereon will cease to accrue, and will require that such 2021A Bonds be then surrendered at the address or addresses of the Paying Agent specified in the redemption notice. Notice of any redemption will either (i) state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the Redemption Date sufficient money to pay the full redemption price of the 2021A Bonds (or portion thereof) to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the 2021A Bonds (or portion thereof) to be redeemed is on deposit in the applicable fund or account. All such amounts deposited for the redemption of 2021A Bonds will be held uninvested or will be invested in Federal Securities (as defined in the Subordinate Resolutions) which mature on or prior to such Redemption Date.

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

Failure by the Paying Agent to give notice as described herein to any one or more of the Remarketing Agent, the Fiscal Agent, any Liquidity Provider, the Information Services or the Securities Depository or the failure of any Owner of 2021A Bonds designated for redemption to receive notice of redemption or any defect in such notice will not affect the sufficiency and validity of the proceedings for redemption.

Effect of Redemption. If notice of redemption has been duly given to the Owners as provided in the Paying Agent Agreement and funds for the payment of the redemption price of the 2021A Bonds to be redeemed are held by the Paying Agent on the designated Redemption Date, then, on the Redemption Date designated in such notice, the redemption price of the 2021A Bonds so called for redemption will become due and payable as specified in such notice. From and after the date so designated interest due with respect to the 2021A Bonds or portions thereof so called for redemption will cease to accrue, such 2021A Bonds will cease to be entitled to any benefit, protection or security under the Paying Agent Agreement and the Owners of such 2021A Bonds will have no rights in respect thereof except to receive payment of the redemption price. The Paying Agent will, upon surrender for payment of any of the 2021A Bonds to be redeemed on their respective Redemption Dates, pay such 2021A Bonds at the redemption price. If such moneys will not be available on the Redemption Date, such 2021A Bonds will continue to bear interest until paid at the same rate they would have borne had they not been called for redemption. Notwithstanding the foregoing, any Bank Bonds shall remain Outstanding until any Liquidity Provider is paid all amounts due under such Bank Bonds or portions thereof to be redeemed on their respective Redemption Dates. All 2021A Bonds redeemed

in whole or in part pursuant to the provisions of the Paying Agent Agreement will be cancelled by the Fiscal Agent and will not be reissued.

Tender and Purchase of 2021A Bonds

General

The 2021A Bonds are subject to purchase upon tender by the Owners thereof and are subject to mandatory purchase under certain circumstances pursuant to the terms of the Paying Agent Agreement. The Purchase Price of the 2021A Bonds is payable from the proceeds of a remarketing of the 2021A Bonds and, so long as the 2021A Bonds are Liquidity Supported Bonds, to the extent remarketing proceeds attributable to such 2021A Bonds in a Weekly Mode are insufficient or not available therefor, initially from amounts available under the Liquidity Facility, subject to the terms and conditions set forth therein, and thereafter from such Alternate Liquidity Facility as may be obtained by Metropolitan to provide for payment of the Purchase Price of the 2021A Bonds. The initial Liquidity Facility terminates on June 13, 2025, unless extended or terminated sooner in accordance with its terms. Under the circumstances described herein, the obligation of the initial Liquidity Provider to purchase the 2021A Bonds tendered by the Owners thereof or subject to mandatory purchase may be terminated or suspended without notice. See “THE LIQUIDITY FACILITY.” In such event, sufficient funds may not be available to purchase the 2021A Bonds tendered by the registered owners thereof or subject to mandatory purchase. See also “– Purchase and Remarketing of 2021A Bonds – Sources of Funds for Purchase of Tendered 2021A Bonds” below.

Optional Tender for Purchase

Optional Tender During Weekly Mode. While the 2021A Bonds bears interest in the Weekly Mode, any Owner of a 2021A Bond (other than a Bank Bond or a District Bond) will have the right to tender its 2021A Bond (or a portion thereof in an amount equal to an Authorized Denomination) to Metropolitan for purchase on any Business Day at a purchase price equal to the principal amount of such 2021A Bonds, plus accrued and unpaid interest to the purchase date (unless the purchase date is otherwise an Interest Payment Date, in which case the purchase price shall not include accrued interest, which shall be paid in the normal course) (the “Purchase Price”), payable in immediately available funds, upon delivery to the Remarketing Agent and to the Paying Agent at its Corporate Trust Office, by no later than 4:00 p.m. (New York City time), on a Business Day at least seven (7) days prior to the date such 2021A Bond is to be purchased, of a written notice which states (i) the principal amount of such 2021A Bond to be purchased; (ii) the date of purchase, which date will be a Business Day not prior to the seventh (7th) day next succeeding the date of the delivery of such notice to the Paying Agent; (iii) applicable payment instructions with respect to the 2021A Bond tendered for purchase; and (iv) an irrevocable demand for such purchase. Any notice delivered to the Paying Agent after 4:00 p.m. (New York City time), will be deemed to have been received on the next succeeding Business Day.

Mandatory Tender for Purchase

Mandatory Tender of Liquidity Supported Bonds upon Termination, Expiration or Replacement of the Liquidity Facility or Change in Designation to Self-Liquidity Bonds. Subject to the provisions described under “– Special Provisions for Liquidity Supported Bonds” below and to the exception described in the next succeeding paragraph, so long as a 2021A Bonds are in the Weekly Mode and are designated by Metropolitan as Liquidity Supported Bonds, the 2021A Bonds will be subject to mandatory tender for purchase: (A) on the effective date of an Alternate Liquidity Facility that Metropolitan delivers to the Paying Agent pursuant to and subject to the conditions set forth in the Paying Agent Agreement; or (B) on the effective date of the election by Metropolitan pursuant to the Paying Agent Agreement to change the 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds; or (C) on the first (1st) Business Day which is at least five (5) calendar days immediately preceding the expiration date of the Liquidity Facility then in effect with respect to the 2021A Bonds; or (D) on a Business Day which is no later than five (5) calendar

days following receipt by the Paying Agent of a written notice from the Liquidity Provider providing that an event of default or event of termination has occurred and is continuing under the Liquidity Facility then in effect with respect to the 2021A Bonds and requesting the Paying Agent to cause the mandatory tender of the 2021A Bonds for purchase, in each case, at the Purchase Price, payable in immediately available funds. Upon termination, expiration or replacement of the Liquidity Facility or change in designation to Self-Liquidity Bonds, the Purchase Price of any Liquidity Supported Bonds in the Weekly Mode tendered on the effective date, at or prior to 12:00 noon (New York City time), on the purchase date, to the Paying Agent, shall be paid by the Liquidity Facility then in effect at such time.

Notwithstanding anything to the contrary in the Paying Agent Agreement with respect to the tender and purchase of the 2021A Bonds, if Metropolitan delivers to the Fiscal Agent, the Paying Agent and the Remarketing Agent, prior to the date that notice is given to Owners of 2021A Bonds of a mandatory tender in connection with the termination, expiration or replacement of a Liquidity Facility or the change in designation of the 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, written evidence from each Rating Agency to the effect that (i) the expiration or other termination of the Liquidity Facility for the 2021A Bonds then in effect, or (ii) the replacement of the Liquidity Facility with an Alternate Liquidity Facility pursuant to the Paying Agent Agreement, or (iii) the change in designation of 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, as the case may be, in and of itself, will not result in the withdrawal or reduction of the rating of the short-term rating(s) then applicable to the 2021A Bonds, then the 2021A Bonds will not be subject to mandatory tender for purchase as described in the preceding paragraph solely as a result of such expiration, termination or replacement of the Liquidity Facility or change in designation of the 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds. If no mandatory tender for purchase of the 2021A Bonds will be required as described herein, then the Paying Agent will give notice by Mail to the Owners of the 2021A Bonds (or, so long as the 2021A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not less than seven (7) days before the date of expiration, termination or replacement of the Liquidity Facility or change in designation of the 2021A Bonds to Self-Liquidity Bonds. Such notice will be substantially similar to the form of the notice that would be required to be delivered by the Paying Agent if the 2021A Bonds were subject to a mandatory tender for purchase as a result of such expiration, termination or replacement of the Liquidity Facility or change in designation of the 2021A Bonds to Self-Liquidity Bonds absent the application of the exception described in this paragraph.

Mandatory Tender Upon Change in Interest Mode. Except in connection with a change in the Interest Mode of the 2021A Bonds from the Weekly Mode to a Daily Mode (or from a Daily Mode to a Weekly Mode) and subject to the provisions described under “– Rescission of Certain Mandatory Tender Events” below, the 2021A Bonds are subject to mandatory tender for purchase on the effective date of a change in the Interest Mode of the 2021A Bonds (or, in accordance with the terms of the Paying Agent Agreement, on the day which would have been the effective date of a new Interest Mode had there not been a failure to deliver a Favorable Opinion of Bond Counsel on such date when required under the Paying Agent Agreement which resulted in the Interest Mode of the 2021A Bonds not being changed), at the Purchase Price, payable in immediately available funds. See also “– Change in Interest Mode or Conversion to Fixed Interest Rate – Change in Interest Mode” above.

Mandatory Tender Upon Conversion to Fixed Interest Rate. Subject to the provisions described under “– Rescission of Certain Mandatory Tender Events” below, the 2021A Bonds are subject to mandatory tender for purchase on the Fixed Rate Date at the Purchase Price, payable in immediately available funds. See also “– Change in Interest Mode or Conversion to Fixed Interest Rate – Conversion to Fixed Interest Rate” above.

Mandatory Tender at Metropolitan’s Election. Subject to the provisions described under “– Rescission of Certain Mandatory Tender Events” below, while bearing interest in the Weekly Mode, the 2021A Bonds are also subject to mandatory tender for purchase (in whole), at the Purchase Price, payable in

immediately available funds, on any Business Day on which Metropolitan elects to provide for a mandatory tender for purchase of such 2021A Bonds and which Metropolitan specifies in writing to the Paying Agent no later than twenty (20) days before such Business Day.

Rescission of Certain Mandatory Tender Events. With respect to any mandatory tender for purchase on the effective date of a change in Interest Mode, upon conversion to a Fixed Interest Rate, or at Metropolitan's election for the 2021A Bonds, Metropolitan may rescind such mandatory tender for purchase by delivery of a written notice to that effect to the Paying Agent at its Corporate Trust Office and the Remarketing Agent, on or prior to 5:00 p.m. (New York City time) on the Business Day immediately preceding the Mandatory Purchase Date. If Metropolitan rescinds any such mandatory tender for purchase, then no purchase will occur and the Owners will continue to own the 2021A Bonds as if no notice of mandatory tender for purchase were delivered.

Special Provisions for Liquidity Supported Bonds

Notwithstanding anything to the contrary described under this caption “– Tender and Purchase of 2021A Bonds,” (A) no Liquidity Supported Bonds will be subject to (i) optional tender for purchase in the Weekly Mode as described under “– Optional Tender for Purchase” above or (ii) mandatory tender for purchase as described under “– Mandatory Tender for Purchase” above, upon the occurrence of any “Suspension Event” or “Immediate Termination Event” (or words of similar import) under the related Liquidity Facility which results in immediate suspension or termination of the Liquidity Provider’s obligation under any such Liquidity Facility to purchase such Liquidity Supported Bonds; (B) no Owner of any Liquidity Supported Bonds that constitute Bank Bonds may optionally tender such Liquidity Supported Bonds while any such 2021A Bonds are in a Weekly Mode; and (C) Metropolitan will have no liability to purchase Liquidity Supported Bonds from any of its assets other than amounts received from proceeds of remarketing and moneys furnished by or at the direction of the Paying Agent and received from the Liquidity Provider pursuant to the Liquidity Facility then in effect. See “– Purchase and Remarketing of 2021A Bonds – Sources of Funds for Purchase of Tendered 2021A Bonds” below.

Notice of Mandatory Tender

Notice of mandatory tender for purchase of the 2021A Bonds will be given as follows:

Notice of Mandatory Tender upon Effective Date of Alternate Liquidity Facility. If Liquidity Supported Bonds are subject to mandatory tender for purchase in connection with the delivery of an Alternate Liquidity Facility for the 2021A Bonds, then the Paying Agent will give notice by Mail to the Owners of the 2021A Bonds (or, so long as the 2021A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than seven (7) days before the Mandatory Purchase Date. The notice will (A) state the expected effective date of such Alternate Liquidity Facility, (B) state the 2021A Bonds will be subject to mandatory tender for purchase, (C) state the Mandatory Purchase Date, and (D) specify the short-term and long-term ratings, if any, to be applicable to the 2021A Bonds after the effective date of the Alternate Liquidity Facility.

Notice of Mandatory Tender for Purchase upon Expiration of a Liquidity Facility. If Liquidity Supported Bonds are subject to mandatory tender for purchase in connection with the expiration of the Liquidity Facility then in effect for the 2021A Bonds, then the Paying Agent will give notice by Mail to the Owners of the 2021A Bonds (or, so long as the 2021A Bonds are then Book-Entry Bonds, to DTC by Mail or by Electronic Notice), not later than seven (7) days before the Mandatory Purchase Date. The notice will state (A) that the Liquidity Facility then in effect with respect to the 2021A Bonds has not been renewed, (B) that a copy of a commitment to issue an Alternate Liquidity Facility has not been delivered to the Paying Agent, (C) that the 2021A Bonds are subject to mandatory tender for purchase, and (D) the Mandatory Purchase Date.

Notice of Mandatory Tender upon Termination of a Liquidity Facility. If Liquidity Supported Bonds are subject to mandatory tender for purchase in connection with the occurrence and continuance of an event of default or event of termination under the Liquidity Facility then in effect for the 2021A Bonds, then the Paying Agent will give notice by Mail to the Owners of the 2021A Bonds (or, so long as the 2021A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), not later than two (2) Business Days following receipt of the written notice from the Liquidity Provider of the occurrence and continuance of an event of default or event of termination under the Liquidity Facility and requesting the Paying Agent to cause the mandatory tender of the 2021A Bonds. The notice by the Paying Agent will state (A) that the Paying Agent has received the referenced notice from the Liquidity Provider and describe such notice, (B) that the 2021A Bonds are subject to mandatory tender for purchase, (C) the Mandatory Purchase Date, and (D) if applicable, whether, under the Liquidity Facility then in effect, the Liquidity Provider will be obligated to purchase the 2021A Bonds upon such mandatory tender for purchase.

Notice of Mandatory Tender Upon Change in Designation to Self-Liquidity Bonds. If the 2021A Bonds are subject to mandatory tender for purchase in connection with Metropolitan's election to change the designation of the 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, then the Paying Agent will give notice by Mail to the Owners of the 2021A Bonds (or, so long as the 2021A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than the seven (7) days before the Mandatory Purchase Date. The notice will state (A) the effective date of the change of the 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, and (B) if applicable, that the 2021A Bonds are subject to mandatory tender for purchase on such effective date and setting forth the Purchase Price.

Notice of Mandatory Tender for Purchase upon Change in Interest Mode. In connection with any mandatory tender for purchase of the 2021A Bonds (if required) upon a change in Interest Mode of the 2021A Bonds, the Paying Agent will give notice of a mandatory tender for purchase as a part of the notice given pursuant to the Paying Agent Agreement in connection with the election by Metropolitan of a new Interest Mode for 2021A Bonds. Such notice will be given by Mail to the Owners of the 2021A Bonds (or, so long as 2021A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not less than seven (7) days prior to the date on which 2021A Bonds will be purchased. The notice will state, among other things (A) that Metropolitan has elected to change the Interest Mode of 2021A Bonds from the Weekly Mode and the Interest Mode to which 2021A Bonds will be changed (unless, in connection with a change to a Long Mode, Metropolitan fails to deliver to the Notice Parties a Favorable Opinion of Bond Counsel as to such change), (B) the effective date of the change, (C) in connection with a change to the Daily Mode, the Short-Term Mode or a Long Mode, whether, upon the change to such Interest Mode, 2021A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds, (D) if 2021A Bonds will be Liquidity Supported Bonds following the change to the Interest Mode, the name of the Liquidity Provider, and (E) if applicable, that 2021A Bonds are subject to mandatory tender for purchase on such effective date and setting forth the Purchase Price.

Notice of Mandatory Tender for Purchase upon Conversion to Fixed Interest Rate. In connection with any mandatory tender for purchase of the 2021A Bonds (if required) upon conversion to a Fixed Interest Rate, the Paying Agent will give notice by Mail to the Owners of the 2021A Bonds (or, if the 2021A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than seven (7) days before the Mandatory Purchase Date. The notice will state (A) that the interest rate with respect to the 2021A Bonds will be converted to the Fixed Interest Rate; (B) the Fixed Rate Date; (C) the date the Fixed Interest Rate is to be established; (D) that interest on the 2021A Bonds will be payable on each January 1 and July 1 after the Fixed Rate Date; (E) that subsequent to the Fixed Rate Date, the Owners of the 2021A Bonds will no longer have the right to deliver their the 2021A Bonds to the Paying Agent for purchase; (F) that all Outstanding the 2021A Bonds will be purchased on the Fixed Rate Date, setting forth the applicable Purchase Price; and (G) that on and after the Fixed Rate Date, the Owners of the 2021A Bonds immediately preceding the Fixed Rate Date will be deemed to have tendered the 2021A Bonds as of the Fixed Rate Date to the Paying Agent. From and after the Fixed Rate Date, such Owners will not be entitled to any payment

(including any interest to accrue from and after the Fixed Rate Date) other than the Purchase Price for the 2021A Bonds which will be an amount equal to the principal amount thereof plus accrued interest, if any, with respect thereto, calculated as of the Fixed Rate Date.

Notice of Mandatory Tender at Metropolitan's Election. If the 2021A Bonds are subject to mandatory tender for purchase at Metropolitan's election, then the Paying Agent will give notice by Mail to the Owners of the 2021A Bonds (or, so long as the 2021A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than seven (7) days before the Mandatory Purchase Date. The notice will state (A) that Metropolitan has elected to provide for a mandatory tender for purchase of the 2021A Bonds and (B) the Mandatory Purchase Date.

Additional Information to be Included in any Notice of Mandatory Tender in the Event the 2021A Bonds are Not Book-Entry Bonds. If at any time the 2021A Bonds are no long Book-Entry Bonds, then, any notice of mandatory tender will, in addition to the information required to be stated therein as provided in the Paying Agent Agreement, will also state (A) that the Purchase Price of any 2021A Bond so subject to mandatory purchase will be payable only upon surrender of such 2021A Bond to the Paying Agent at its Corporate Trust Office for delivery of 2021A Bonds, accompanied by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or the Owner's duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; and (B) that, if any Owner of a 2021A Bond does not surrender such 2021A Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2021A Bond will be deemed to be an "Undelivered Bond" and to have been purchased on the Mandatory Purchase Date, and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights hereunder or under the Subordinate Resolutions other than to receive payment of the Purchase Price thereof.

Delivery of 2021A Bonds to be Purchased and Payment of the Purchase Price

Payment of Purchase Price Upon Delivery of 2021A Bonds. For payment of the Purchase Price of any 2021A Bond to be purchased as described under "- Optional Tender for Purchase" or "- Mandatory Tender for Purchase," on the specified purchase date therefor, such 2021A Bond must be delivered, in the case of 2021A Bonds in the Weekly Mode, at or prior to 12:00 p.m. (New York City time), on the purchase date, to the Paying Agent at its Corporate Trust Office for delivery of 2021A Bonds accompanied, when the 2021A Bonds are not Book-Entry Bonds, by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or his duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution. If any such 2021A Bond is delivered after 12:00 p.m. (New York City time) in the case of the 2021A Bonds while in the Weekly Mode, on the purchase date therefor, payment of the Purchase Price of such 2021A Bond need not be made until the Business Day following the date of delivery of such 2021A Bond but such 2021A Bond will nonetheless be deemed to have been purchased on the date specified in such notice and no interest will accrue thereon from and after such date.

Undelivered 2021A Bonds. The Paying Agent may refuse to accept delivery of any 2021A Bond for which a proper instrument of transfer has not been provided; such refusal, however, will not affect the validity of the purchase of such 2021A Bond as herein described. If any Owner of a 2021A Bond bearing interest in the Weekly Mode gives notice of its optional tender for purchase of 2021A Bonds or any Owner of a 2021A Bond subject to mandatory tender for purchase in connection with the termination, expiration or replacement of the Liquidity Facility, a change in designation of the 2021A Bonds to Self-Liquidity Bonds, a change in the Interest Mode, a conversion to a Fixed Interest Rate, or at Metropolitan's election fails to deliver such 2021A Bond to the Paying Agent at the place and on the applicable date and at the time specified, or fails to deliver such 2021A Bond properly endorsed, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent for such purpose, such 2021A Bond will constitute an

“Undelivered Bond.” If funds in the amount of the Purchase Price of the Undelivered Bonds are available for payment to the Owner thereof on the date and at the time specified, from and after the date and time of that required delivery, (1) each Undelivered Bond will be deemed to be purchased; (2) interest will no longer accrue thereon and the Owner thereof will have no rights under the Subordinate Resolutions other than to receive payment of the Purchase Price thereof calculated as of the applicable purchase date; and (3) funds in the amount of the Purchase Price of each such Undelivered Bond will be held by the Paying Agent for the benefit of the Owner thereof (provided that the Owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Undelivered Bond to the Paying Agent at its Corporate Trust Office for delivery of 2021A Bonds. Any funds held by the Paying Agent as described in clause (3) of the preceding sentence will be held uninvested and not commingled.

The Paying Agent will determine timely and proper delivery of 2021A Bonds pursuant to the Paying Agent Agreement and the proper endorsement of such 2021A Bonds. Such determination will be binding on the Owners of such 2021A Bonds, Metropolitan, the Remarketing Agent, the Liquidity Provider and the Fiscal Agent, absent manifest error.

Notice of Owner’s Election to Tender Bond Deemed to be Irrevocable. The giving of notice by an Owner of a 2021A Bond of optional tender while such 2021A Bond bears interest in the Weekly Mode as described under “– Optional Tender for Purchase – *Optional Tender During Weekly Mode*” above will constitute the irrevocable tender for purchase of each such 2021A Bond with respect to which such notice will have been given, regardless of whether such 2021A Bond is delivered to the Paying Agent for purchase on the relevant purchase date.

Payment of Purchase Price. Subject to the provisions of the Paying Agent Agreement, the Paying Agent will pay the Purchase Price of any 2021A Bonds purchased or deemed purchased as described under “– Optional Tender for Purchase” or “– Mandatory Tender for Purchase” above, by check mailed by Mail to the Owners of the 2021A Bonds as of the close of business on the purchase date at the registered addresses of Owners they appear on the Bond Register maintained by the Paying Agent. In the case of any Owner of 2021A Bonds in an aggregate principal amount in excess of \$1,000,000 as shown on the registration books kept by the Paying Agent who, prior to the purchase date, has provided, or caused to be provided to, the Paying Agent wire transfer instructions, the Paying Agent will pay the Purchase Price on such 2021A Bonds in accordance with the wire transfer instructions provided by the Owner of such 2021A Bonds (or by the Remarketing Agent on behalf of such Owner).

Tenders of Book-Entry Bonds. Notwithstanding any provision to the contrary contained in the Paying Agent Agreement, all tenders for purchase during any period in which the 2021A Bonds are registered in the name of Cede & Co. (or the nominee of any successor Securities Depository) are subject to the terms and conditions set forth in the Representation Letter and any rules and regulations promulgated by DTC (or any successor Securities Depository). Subject thereto, the 2021A Bonds may be tendered by means of a book-entry credit of such 2021A Bonds to the account of the Remarketing Agent; provided, however, that under circumstances permitted by such rules and regulations notice of tender will be given by a purchaser of 2021A Bonds on behalf of the beneficial owner of such 2021A Bonds; and provided further that, if the Remarketing Agent notifies the Paying Agent that 2021A Bonds have been remarketed, such 2021A Bonds may be treated as being tendered upon a book-entry transfer of such 2021A Bonds from the account of the tendering party to the credit of the account of the purchaser of such 2021A Bonds.

Purchase and Remarketing of 2021A Bonds

Sources of Funds for Purchase of Tendered 2021A Bonds. The Paying Agent Agreement requires Metropolitan to purchase 2021A Bonds bearing interest in a Weekly Mode from the Owners thereof pursuant to the optional and mandatory tender provisions in the Paying Agent Agreement and described under “– Tender and Purchase of 2021A Bonds – Optional Tender for Purchase” and “– Mandatory Tender for

Purchase” above on the applicable purchase date therefor and at the Purchase Price from the following sources in the order of priority indicated:

- (i) proceeds of the sale of such 2021A Bonds remarketed to any person pursuant to the Paying Agent Agreement and furnished to the Paying Agent by the Remarketing Agent for deposit into the Remarketing Proceeds Account of the Purchase Fund; and
- (ii) solely with respect to 2021A Bonds while designated as Liquidity Supported Bonds, moneys furnished by or at the direction of the Paying Agent for deposit into the related Purchase Account of the Purchase Fund representing moneys received from the Liquidity Provider pursuant to the Liquidity Facility then in effect for the 2021A Bonds.

While the 2021A Bonds are Liquidity Supported Bonds, Metropolitan will have no obligation to pay the Purchase Price of any Liquidity Supported Bonds tendered for purchase as described under “–Tender and Purchase of 2021A Bonds – Optional Tender for Purchase” and “– Mandatory Tender for Purchase” above except from the moneys from the sources described in clauses (i) and (ii) above.

If for any reason Metropolitan does not purchase all 2021A Bonds tendered or deemed tendered and required to be purchased pursuant to the Paying Agent Agreement on the required purchase date therefor (such an event being referred to herein as a “Failed Tender”), then the Paying Agent will return all tendered 2021A Bonds to their respective Owners and the 2021A Bonds will bear interest at the Maximum Interest Rate from the date of the Failed Tender until all 2021A Bonds tendered on the date of such Failed Tender are purchased. From and after a Failed Tender, the Paying Agent will continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Provider to purchase all 2021A Bonds tendered on the purchase date therefor on which such Failed Tender occurs. Notwithstanding the foregoing, no Failed Tender will constitute an Event of Default under the Paying Agent Agreement or an “Event of Default” with respect to payment of principal of and interest on the 2021A Bonds by Metropolitan under the Master Subordinate Resolution or under any other provision of the Subordinate Resolutions.

Remarketing of the 2021A Bonds. Upon notice of any optional tender for purchase of 2021A Bonds by an Owner thereof bearing interest in the Weekly Mode or upon the receipt of a notice of mandatory tender for purchase of 2021A Bonds upon the termination, expiration or replacement of the Liquidity Facility, change in designation to Self-Liquidity Bonds, a change in Interest Mode, conversion to Fixed Interest Rate or at Metropolitan’s election, the Paying Agent Agreement requires the Remarketing Agent to offer for sale and use its best efforts to sell in accordance with the Remarketing Agreement all such 2021A Bonds, any such sale to be made on the date of such purchase in accordance with the applicable provisions of the Paying Agent Agreement at the minimum interest rate which, if borne by such 2021A Bonds, would enable the Remarketing Agent to sell such 2021A Bonds on the purchase date therefor at a price equal to the Purchase Price (except as provided by the Paying Agent Agreement in connection with a conversion to a Fixed Interest Rate or in connection with a tender for purchase of 2021A Bonds as a result of a change of Interest Mode to a Flexible Index Mode or an Index Mode). The Remarketing Agent will not remarket any Liquidity Supported Bonds unless a Liquidity Facility is then in effect with respect to such 2021A Bonds or unless such 2021A Bonds are being remarketed at the Fixed Interest Rate on the Fixed Rate Date. The Remarketing Agent agrees that it shall not sell to Metropolitan any Liquidity Supported Bonds tendered for purchase as described under “–Tender and Purchase of 2021A Bonds” above.

Demand for Purchase of Liquidity Supported Bonds Under the Liquidity Facility. Pursuant to the Paying Agent Agreement, the Paying Agent is directed to notify the Liquidity Provider on the purchase date in accordance with the terms of the Liquidity Facility then in effect for the 2021A Bonds as to the aggregate Purchase Price of tendered Liquidity Supported Bonds that are not remarketed pursuant to the Paying Agent Agreement and the Liquidity Provider is required to purchase and make a demand for the purchase of such

Liquidity Supported Bonds under the Liquidity Facility then in effect in accordance with its terms, such that the Paying Agent will receive amounts sufficient to timely pay the Purchase Price of all tendered Liquidity Supported Bonds on the purchase date therefor. Upon the receipt of amounts under the Liquidity Facility then in effect for the 2021A Bonds, the Paying Agent will deposit an amount equal to the Purchase Price of all tendered Liquidity Supported Bonds in the Purchase Account. In determining the amount of any such Purchase Price then due, the Paying Agent will not take into consideration any Purchase Price due on Liquidity Supported Bonds registered in the name of Metropolitan or any affiliate of Metropolitan to the extent identified to the Paying Agent or in the name of the Liquidity Provider and no demand for purchase under the Liquidity Facility will be made to pay the Purchase Price of any Liquidity Supported Bonds registered in the name of Metropolitan or any affiliate of Metropolitan to the extent identified to the Paying Agent or in the name of the Liquidity Provider. By 3:15 p.m. (New York City time) the Paying Agent will purchase the tendered Liquidity Supported Bonds, and remit to the Liquidity Provider such funds in the Purchase Account which the Paying Agent did not use to purchase tendered Liquidity Supported Bonds.

Remarketing Agent

Metropolitan has initially appointed BofA Securities as the Remarketing Agent for the 2021A Bonds under the terms of the Remarketing Agreement. Under the Remarketing Agreement, the Remarketing Agent may at any time resign as remarketing agent for the 2021A Bonds and be discharged of the duties and obligations created by the Paying Agent Agreement thereunder by giving notice to Metropolitan, the Fiscal Agent, the Paying Agent and the Liquidity Provider. Such resignation will take effect on the sixtieth (60th) day after the receipt by Metropolitan of the notice of resignation. The Remarketing Agent may be removed for any reason by Metropolitan upon thirty (30) days' notice to the Remarketing Agent and the other Notice Parties (as defined in the Paying Agent Agreement); provided, however, if the Remarketing Agent is in default under a Remarketing Agreement, Metropolitan may immediately remove the Remarketing Agent at any time by written notice given by Metropolitan and delivered to the Remarketing Agent and the other Notice Parties.

Special Considerations Related to Remarketing of 2021A Bonds

The Remarketing Agent Is Paid by Metropolitan. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing the 2021A Bonds that are optionally or mandatorily tendered by the Owners thereof (subject, in each case, to the terms of the Remarketing Agreement and Paying Agent Agreement), as further described in this Official Statement. The Remarketing Agent is appointed by Metropolitan and is paid by Metropolitan for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of the 2021A Bonds.

The Remarketing Agent May Purchase the 2021A Bonds for Its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, may purchase such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered 2021A Bonds for its own account and, in its sole discretion, may routinely acquire such tendered 2021A Bonds in order to achieve a successful remarketing of such 2021A Bonds (*i.e.*, because there otherwise are not enough buyers to purchase such 2021A Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase such 2021A Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the 2021A Bonds by routinely purchasing and selling such 2021A Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in such 2021A Bonds. The Remarketing Agent may also sell any of the 2021A Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to such 2021A Bonds. The purchase of 2021A Bonds by the Remarketing Agent may create the appearance that there is greater third

party demand for such 2021A Bonds in the market than is actually the case. The practices described above also may result in fewer 2021A Bonds being tendered in a remarketing.

The 2021A Bonds May Be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Pursuant to the Remarketing Agreement, the Remarketing Agent thereunder is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the 2021A Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the date of determination of such interest rate. The interest rate will reflect, among other factors, the level of market demand for such 2021A Bonds (including whether the Remarketing Agent is willing to purchase such 2021A Bonds for its own account). There may or may not be 2021A Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket 2021A Bonds tendered for purchase on such date at par and the Remarketing Agent may sell such 2021A Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of such 2021A Bonds at the remarketing price. In the event the Remarketing Agent owns any of the 2021A Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2021A Bonds on any date, including the date of determination of the interest rate on such 2021A Bonds, at a discount to par to some investors.

The Ability to Sell the 2021A Bonds Other Than through Tender Process May Be Limited. The Remarketing Agent may buy and sell the 2021A Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their 2021A Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the 2021A Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2021A Bonds other than by tendering such 2021A Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May be Removed, Resign or Cease Remarketing the 2021A Bonds Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

Liquidity Supported Bonds and Self-Liquidity Bonds

Designation of 2021A Bonds as Liquidity Supported Bonds. While the 2021A Bonds bear interest in the Weekly Mode, the Paying Agent Agreement requires Metropolitan to designate all 2021A Bonds as either Self-Liquidity Bonds or Liquidity Supported Bonds. Upon the date of delivery of the 2021A Bonds in the Weekly Mode, Metropolitan has initially designated the 2021A Bonds to be Liquidity Supported Bonds. The 2021A Bonds will continue to be Liquidity Supported Bonds unless and until (i) Metropolitan changes the 2021A Bonds to Self-Liquidity Supported Bonds as described below or in connection with a change in the Interest Mode on the 2021A Bonds to the Daily Mode, Short-Term Mode or Long Mode, or (ii) Metropolitan changes the Interest Mode of the 2021A Bonds to the Flexible Index Mode or the Index Mode, or (iii) Metropolitan converts the interest rate on the 2021A to a Fixed Interest Rate. In connection with any change in the Interest Mode of the 2021A to the Daily Mode, Weekly Mode (from a subsequent different Interest Mode), Short-Term Mode or Long Mode, Metropolitan will designate the 2021A Bonds either as Liquidity Supported Bonds or as Self-Liquidity Bonds.

Whether Metropolitan designates the 2021A Bonds as Liquidity Supported Bonds or Self-Liquidity Bonds will determine whether a Liquidity Provider or Metropolitan is responsible for the payment of the Purchase Price of tendered 2021A Bonds to the extent that remarketing proceeds are insufficient. While the 2021A Bonds are Liquidity Supported Bonds, a Liquidity Provider will bear that obligation in accordance with the terms of a Liquidity Facility and Metropolitan will have no liability to purchase Liquidity Supported Bonds that are tendered for purchase from any of its assets other than amounts from the sources described

under “– Purchase and Remarketing of 2021A Bonds – Sources of Funds for Purchase of Tendered 2021A Bonds.”

Change in the Designation of the 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds. Metropolitan may elect to change the 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds by delivering a written direction to the other Notice Parties not later than ten (10) days before the effective date of the change to Self-Liquidity Bonds. The effective date of the change to Self-Liquidity Bonds will be a Business Day. The written direction of Metropolitan will specify (1) the effective date of the change to Self-Liquidity Bonds, and (2) if applicable, the date of delivery for the 2021A Bonds to be purchased (if other than the effective date) as described under “– Tender and Purchase of 2021A Bonds – Mandatory Tender for Purchase – *Mandatory Tender for Purchase of Liquidity Supported Bonds upon Termination, Expiration or Replacement of the Liquidity Facility or Change in Designation to Self-Liquidity Bonds.*” In addition, together with any such written direction, Metropolitan will include a form of notice that the Paying Agent is required to give to the Owners of such the 2021A Bonds in connection with such change in designation of the 2021A Bonds to Self-Liquidity Bonds. The Paying Agent will give notice by Mail to the Owners of the 2021A Bonds (or, if such 2021A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), together with the notice described under “– Tender and Purchase of 2021A Bonds – Notice of Mandatory Tender – *Notice of Mandatory Tender Upon Change in Designation to Liquidity Supported Bonds,*” of a change in the designation of the 2021A Bonds to Self-Liquidity Bonds not less than seven (7) days before the effective date of the change. The notice will state (i) the effective date of the change of such 2021A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, and (ii) if applicable, that the 2021A Bonds are subject to mandatory tender for purchase on such effective date, setting forth the applicable Purchase Price.

Book-Entry Only System

Metropolitan will issue the 2021A Bonds as fully registered bonds in the name of Cede & Co., as nominee of DTC. The 2021A Bonds will be available to Beneficial Owners (as defined in APPENDIX F – “BOOK-ENTRY ONLY SYSTEM”) only under the book-entry system maintained by DTC. Beneficial Owners of 2021A Bonds will not receive physical certificates representing their interests in the 2021A Bonds. So long as the 2021A Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners will mean Cede & Co., and will not mean the ultimate purchasers or Beneficial Owners of the 2021A Bonds. Metropolitan will pay principal of and redemption premium, if any, and interest on the 2021A Bonds directly to DTC or Cede & Co. so long as DTC or Cede & Co. is the registered owner of the 2021A Bonds. Payments of Purchase Price for any 2021A Bonds will also be paid directly to DTC or Cede & Co. so long as DTC or Cede & Co. is the registered owner of the 2021A Bonds. Disbursements of such payments to DTC’s Direct Participants is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC’s Direct Participants and Indirect Participants. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

None of Metropolitan, the Fiscal Agent or the Paying Agent will have any responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any Direct or Indirect Participant with respect to any beneficial ownership interest in the 2021A Bonds; (ii) the delivery to any Direct or Indirect Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the 2021A Bonds; (iii) the payment to any Direct or Indirect Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal of, premium, if any, or interest on, or Purchase Price for, the 2021A Bonds; (iv) any consent given by DTC or its nominee as Owner; or (v) the selection by DTC or any Direct or Indirect Participant of any Beneficial Owners to receive payment if the 2021A Bonds are redeemed in part. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS

Security for the 2021A Bonds

The 2021A Bonds are special limited obligations of Metropolitan payable, as to principal thereof, interest thereon, and any premiums upon redemption thereof, if any, solely from and secured by a pledge of and a lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt and on parity with other Subordinate Bonds and First Tier Parity Obligations. Under the Master Subordinate Resolution, Metropolitan has further pledged to secure the payment of the principal of, and premium, if any, and interest on the Subordinate Bonds, including the 2021A Bonds, all amounts (including proceeds of the Subordinate Bonds) held by the Treasurer of Metropolitan in the Subordinate Bond Service Fund, subject only to the provisions of the Master Subordinate Resolution permitting the application of such amounts for the purposes and on the terms and conditions set forth in the Master Subordinate Resolution. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS AND THE PAYING AGENT AGREEMENT.” See also “—Subordinate Bond Service Fund” below.

As defined in the Master Subordinate Resolution:

“Net Operating Revenues” are initially the Operating Revenues less Operating Expenses paid from Operating Revenues.

“Operating Revenues” are all revenues received by Metropolitan from charges for the sale and availability of water as determined in accordance with generally accepted accounting principles, as in effect in the United States with respect to governmental entities similar to Metropolitan (“GAAP”).

“Operating Expenses” are the operating expenses of Metropolitan as determined by GAAP, provided that (1) Operating Expenses does not include expenses attributable to amortization, depreciation, and debt service, and any amounts recognized as operating expenses of Metropolitan 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 (2) the cost of any acquisition of water shall be recognized as an operating expense of Metropolitan at a time that Metropolitan determines, but shall not be recognized at any time later than the time Metropolitan sells such water. As described herein, for purposes of the Master Subordinate Resolution, and consistent with the modified accrual basis of accounting methodology Metropolitan uses for budgetary and budgetary financial reporting purposes, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus, revenues from water transactions are recognized in the month the transaction occurs and expenses, including the costs of any acquisition of water, are recognized when goods have been received and services have been rendered. See “ACCOUNTING AND BUDGET MATTERS.”

As described herein, Metropolitan has adopted the Senior Debt Resolution authorizing the issuance of Senior Bonds and Senior Obligations (collectively referred to herein as Senior Debt) payable and secured on a senior basis to the Subordinate Bonds for the purpose of financing, or in connection with the financing of, the costs or improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Senior Debt Resolution. See Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations” for a description of Metropolitan’s outstanding Senior Debt as of May 1, 2021. See also APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION” for a summary of the terms of the Senior Debt Resolution.

The Master Subordinate Resolution permits Metropolitan to change the definition of Net Operating Revenues at such time as Metropolitan is no longer permitted to issue or incur any additional Senior Debt under the Senior Debt Resolution. The Master Subordinate Resolution refers to this as a “Pledge Change

Designation.” After a Pledge Change Designation, the definition of “Net Operating Revenues” will be changed to mean “Operating Revenues less (i) Operating Expenses paid from Operating Revenues and (ii) SWC Capital Payments paid from Operating Revenues.” “SWC Capital Payments” are any payments made by Metropolitan under its State Water Contract that do not constitute Operating Expenses. Metropolitan’s State Water Contract is discussed in Appendix A under the caption “METROPOLITAN EXPENSES – State Water Contract Obligations.” To effect a Pledge Change Designation, Metropolitan must deliver a certificate electing to effect a Pledge Change Designation and pursuant to which it certifies that (1) it is prohibited from issuing or incurring any additional Senior Debt under the terms of the Senior Debt Resolution and (2) after giving effect to the Pledge Change Designation, it can satisfy the additional bonds test under the Master Subordinate Resolution as though it were issuing all Subordinate Bonds and First Tier Parity Obligations Outstanding on such date. See “APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS AND THE PAYING AGENT AGREEMENT.”

The 2021A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2021A Bonds or the interest thereon. The obligation to pay the principal of, redemption premium, if any, and interest on the 2021A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except Net Operating Revenues as described in this Official Statement.

Rate Covenant

Metropolitan covenants in the Master Subordinate Resolution that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which will provide Operating Revenues, together with any other revenues of Metropolitan and any amounts available in any Unrestricted Reserves of Metropolitan, at least sufficient to pay the following amounts (collectively, the “Rate Covenant Amounts”):

1. Operating Expenses;

2. 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

3. 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.

In the event of, and from and after, a Pledge Change Designation (as described above), the Rate Covenant amounts will also include SWC Capital Payments. In determining the amounts payable with respect to any of the Rate Covenant Amounts and the amounts of rates and charges, Metropolitan may make such allowances for contingencies and errors in estimates and may incorporate and use such assumptions as Metropolitan determines are appropriate and reasonable.

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

assessing whether Proposition 26 may affect future water rates and charges. These revenues may be affected by the application of Proposition 26. See Appendix A under the caption “METROPOLITAN REVENUES – California Ballot Initiatives.”

No Reserve Fund

Metropolitan will not fund a reserve fund for the 2021A Bonds. **Amounts held or to be held in a reserve fund or account established for any Senior Bonds or any other Series of Subordinate Bonds or any insurance policy, surety bond, letter of credit or other credit facility credited to a reserve fund or account established for any Senior Bonds or any other Series of Subordinate Bonds will not be available or drawn upon to pay principal of or interest on the 2021A Bonds.**

Outstanding Senior Bonds and Senior Obligations

As of May 1, 2021, Metropolitan had outstanding \$2.58 billion aggregate principal amount of Senior Bonds issued under the Senior Debt Resolution. Metropolitan’s outstanding Senior Bonds include variable rate Liquidity-Supported Bonds, direct purchase Long Mode Bonds and Term Mode Bonds. In connection with its variable rate Liquidity-Supported Bonds, Metropolitan has entered into certain standby bond purchase agreements for such Senior Bonds. Metropolitan has also entered into a bond purchase agreement (the “2020 Direct Purchase Agreement”) with Wells Fargo Municipal Capital Strategies, LLC relating to its direct purchase Long Mode Bonds. Metropolitan’s outstanding Senior Bonds, and such related standby bond purchase facilities and 2020 Direct Purchase Agreement, are more fully described in Appendix A under the captions “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Revenue Bonds,” “– Variable Rate and Swap Obligations,” “– Direct Purchase Long Mode Bonds” and “– Term Mode Bonds.” The Senior Bonds, including any Senior Bonds hereafter issued in accordance with the Senior Debt Resolution, and all Senior Obligations of Metropolitan on parity therewith are payable from Net Operating Revenues prior to the payment of Metropolitan’s Subordinate Bonds, including the 2021A Bonds, and other Subordinate Obligations.

Metropolitan has entered into a short-term revolving credit facility (the “RBC Short-Term Revolving Credit Facility”) that it secured as a Senior Obligation. Under the RBC Short-Term Revolving Credit Facility, Metropolitan may borrow, pay down and re-borrow, through the issuance and sale from time to time of short-term notes, an aggregate amount outstanding at any time of up to \$200 million. As of May 1, 2021, Metropolitan had \$0 in outstanding notes under the RBC Short-Term Revolving Credit Facility. As described under “INTRODUCTION – Other Refunding Transactions Being Undertaken by Metropolitan,” on or before June 30, 2021, Metropolitan expects to make a draw on the RBC Short-Term Revolving Credit Facility and issue \$35,645,000 principal amount of short-term notes thereunder to provide temporary financing for the partial refunding of a series of its outstanding Subordinate Bonds. A portion of the proceeds of Metropolitan’s 2021B Senior Bonds, which are expected to be issued on or about July 8, 2021, are expected to be applied to repay and redeem all of the then outstanding notes under the RBC Short-Term Revolving Credit evidencing such draw. See Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations” for a description of the RBC Short-Term Revolving Credit Facility.

Metropolitan also has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with Metropolitan’s obligation to pay principal of and interest on the Senior Bonds and other Senior Obligations. The payments by Metropolitan are secured as described in, and the interest rate swap agreements entail risks to Metropolitan as described in, Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations – Interest Rate Swap Transactions.”

Additional information regarding the terms of certain of Metropolitan's outstanding Senior Bonds and Senior Obligations, including certain circumstances and the terms under which some of Metropolitan's repayment obligations may be accelerated or otherwise become due prior to maturity, is set forth in Appendix A. See also "RISK FACTORS."

As provided in the Senior Debt Resolution, Metropolitan may issue additional Senior Bonds and Senior Obligations payable and secured on a basis senior and prior to the payment of the Subordinate Bonds, including the 2021A Bonds, and other Subordinate Obligations, subject to the limitations, terms and conditions of the Senior Debt Resolution. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION – Covenants – Limits on Additional Debt."

Outstanding Subordinate Obligations

As of May 1, 2021, Metropolitan had outstanding \$1.36 billion aggregate principal amount of Subordinate Bonds (including the 2016A Subordinate Bonds to be refunded with a portion of the proceeds of the 2021A Bonds) issued under the Master Subordinate Resolution. Metropolitan's outstanding Subordinate Bonds include variable rate Index Tender Bonds, as more fully described in Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations." The outstanding Subordinate Bonds, including any additional Subordinate Bonds hereafter issued in accordance with the Subordinate Resolutions, and all First Tier Parity Obligations of Metropolitan are payable from Net Operating Revenues on parity with the 2021A Bonds. As described under "INTRODUCTION – Other Refunding Transactions Being Undertaken by Metropolitan," on or about July 1, 2021, Metropolitan expects to refund \$35,645,000 principal amount of its outstanding Subordinate Bonds (being a portion of its 2017B Subordinate Bonds) from funds drawn under its RBC Short-Term Revolving Credit Facility and issue \$35,645,000 principal amount of notes thereunder (which notes are expected to be repaid and redeemed with proceeds of Metropolitan's 2021B Senior Bonds which are anticipated to be issued on or about July 8, 2021).

Metropolitan's 2016A Subordinate Bonds were issued in a direct purchase arrangement with Bank of America, N.A. ("BANA"). In connection with the issuance of the 2016A Subordinate Bonds, Metropolitan entered into a Continuing Covenant Agreement (the "2016 BANA Agreement") with BANA to provide for the purchase by BANA of the 2016A Subordinate Bonds. Metropolitan secured its obligation to pay principal and interest under the 2016 BANA Agreement as a First Tier Parity Obligation payable on parity with the Subordinate Bonds and all other Subordinate Obligations. See Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations – Short-Term Revolving Credit Facility" for a description of the 2016A Subordinate Bonds and the 2016 BANA Agreement. As described under "PLAN OF REFUNDING," all of the outstanding 2016A Subordinate Bonds are being refunded with proceeds of the 2021A Bonds.

Metropolitan's 2019A Subordinate Short-Term Refunding Notes were purchased by BANA in a direct purchase arrangement pursuant to a note purchase and continuing covenant agreement (the "Subordinate Refunding Note Purchase Agreement") between Metropolitan and BANA. As of May 1, 2021, Metropolitan had \$46.8 million principal amount of outstanding 2019A Subordinate Short-Term Refunding Notes under the Subordinate Refunding Note Purchase Agreement. Metropolitan has also entered into a separate note purchase and continuing covenant agreement with BANA in 2019 (the "2019 Subordinate Note Purchase Agreement," and together with the Subordinate Refunding Note Purchase Agreement, the "Subordinate Note Purchase Agreements"). Under the 2019 Subordinate Note Purchase Agreement, Metropolitan may borrow, through the issuance and sale from time to time of short-term notes to be purchased by BANA, subordinate short-term notes in an aggregate principal amount not to exceed \$39.2 million. As of May 1, 2021, Metropolitan had \$0 in outstanding notes under the 2019 Subordinate Note Purchase Agreement. Metropolitan has secured its obligations to repay notes evidencing borrowings under each of the Subordinate Note Purchase Agreements with BANA as First Tier Parity Obligation payable on

parity with the Subordinate Bonds and all other Subordinate Obligations. See Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations – *Subordinate Short-Term Certificates*” for a description of the Subordinate Note Purchase Agreements. As described under “PLAN OF REFUNDING,” all of the outstanding 2019A Subordinate Short-Term Refunding Notes are being refunded with proceeds of the 2021A Bonds. The 2019 Subordinate Note Purchase Agreement will terminate by its terms on July 30, 2021.

Under some circumstances, the interest rate swap agreements referred to under “– Outstanding Senior Bonds and Senior Obligations” above are subject to early termination, in which event Metropolitan may be obligated to make a substantial payment to the applicable counterparty. Such termination payments are secured in some cases on a basis on parity with, and in other cases on a basis senior in payment priority to, the Subordinate Bonds, including the 2021A Bonds, and the other Subordinate Obligations. See Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

Additional information regarding the terms of certain of Metropolitan’s outstanding Subordinate Bonds and other Subordinate Obligations, including certain circumstances and the terms under which some of Metropolitan’s repayment obligations may be accelerated or otherwise become due prior to maturity, is set forth in Appendix A. See also “RISK FACTORS.”

Additional Indebtedness under the Master Subordinate Resolution

Metropolitan covenants in the Master Subordinate Resolution that, except for existing and future Senior Debt, no additional indebtedness evidenced by bonds, notes or any other evidences of indebtedness payable out of its Operating Revenues will be issued having any priority in payment of principal, premium, if any, or interest over the Subordinate Bonds, including the 2021A Bonds, and First Tier Parity Obligations.

In addition, Metropolitan covenants in the Master Subordinate Resolution that, except Subordinate Bonds and First Tier Parity Obligations to the extent incurred to pay or discharge Outstanding Senior Debt, Subordinate Bonds or First Tier Parity Obligations and which do not result in an increase in the Average Annual Debt Service on all Senior Debt, Subordinate Bonds or First Tier Parity Obligations to be Outstanding after the issuance of such Subordinate Bonds or First Tier Parity Obligations, and except for any Subordinate Bonds or First Tier Parity Obligations issued or incurred in connection with any Commercial Paper Program or Revolving Credit Agreement, Metropolitan will not issue or incur any additional Subordinate Bonds or First Tier Parity Obligations unless, among other things, Metropolitan delivers a Certificate 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 Subordinate Bonds or incurrence of First Tier Parity Obligations):

FIRST: Metropolitan is not in default under the terms of the Subordinate Resolutions (including as supplemented, modified or amended by any supplemental resolution); and

SECOND: The sum obtained from (A) at the option of Metropolitan either the amount of (1) the Net Operating Revenues as shown by the books and records of Metropolitan for either the latest Fiscal Year or for 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 Metropolitan, or (2) 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 Subordinate Bonds or First Tier Parity Obligations will be in operation, as estimated by and set forth in a Certificate of Metropolitan, plus (B) at the option of Metropolitan, any or all of certain other items permitted by the Subordinate Resolutions, will have amounted to not less than Average Annual Debt Service on all Senior Debt, Subordinate Bonds and First Tier Parity Obligations to be Outstanding immediately after the issuance or incurrence of such additional Subordinate Bonds or First Tier

Parity Obligations. In making this calculation, Metropolitan may take into consideration any increases in water rates or charges which have been adopted by the Board before the issuance or incurrence of such additional Subordinate Bonds or First Tier Parity Obligations; any increase in Net Operating Revenues which may arise from additions, extensions or improvements to the Water System to be made or acquired with the proceeds of such additional Subordinate Bonds or First Tier Parity Obligations or using the proceeds of Senior Debt, Subordinate Bonds, First Tier Parity Obligations or Second Tier Subordinate Obligations previously issued, or from additions recently placed in service; and Additional Revenues and other moneys of Metropolitan reasonably expected to be available to pay principal of and interest on Senior Debt, Subordinate Bonds and First Tier Parity Obligations as specified in the Subordinate Resolutions.

Under the Subordinate Resolutions, Metropolitan may 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 Subordinate 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 under the Subordinate Resolutions from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Subordinate 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 the Subordinate Resolutions or the instruments creating any First Tier Parity Obligations and Second Tier Subordinate Obligations.

Under the Act, the amount of outstanding bonds and other evidences of indebtedness may not exceed 15% of the assessed value of all taxable property within Metropolitan, as shown by county assessment records. As of May 1, 2021, Metropolitan's outstanding bonds and other evidences of indebtedness, in the aggregate amount of \$4.02 billion, constituted approximately 0.12% of the fiscal year 2020-21 taxable assessed valuation of \$3,263.4 billion within the geographical boundaries of Metropolitan. The Act also specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of such bonds, equals at least 100% of the aggregate amount of revenue bonds outstanding following the issuance of such bonds. The latter statutory limitation does not apply to forms of financing available to Metropolitan other than revenue bonds. The net assets of Metropolitan at June 30, 2020 were \$6.94 billion. The aggregate amount of revenue bonds outstanding as of May 1, 2021 was \$3.95 billion.

See "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings." See also Appendix A under the caption "CAPITAL INVESTMENT PLAN – Capital Investment Plan Financing" for a discussion of certain additional financings projected to be undertaken by Metropolitan as of the date of this Official Statement.

Subordinate Bond Service Fund

So long as any Subordinate Bonds are Outstanding, Metropolitan is required to 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) Metropolitan 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 Subordinate Bonds and such First Tier Parity Obligations); and (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, Metropolitan is required to transfer to the Interest Account an amount equal to the aggregate amount of interest becoming due and payable on the Outstanding Subordinate 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 Subordinate 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 Subordinate 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 Subordinate 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, Metropolitan shall transfer to the Principal Account an amount equal to (a) the aggregate amount of Subordinate 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 Subordinate 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 Subordinate Bond Obligation or Mandatory Sinking Account Payments on such Principal Payment Date shall be transferred to the Water Revenue Fund.

THE LIQUIDITY FACILITY

The following summarizes certain provisions of the Liquidity Facility. Reference is made to such document, in its entirety, for the complete provisions thereof. The provisions of any Alternate Liquidity Facility may be different from those summarized below. Capitalized terms used under this heading “THE LIQUIDITY FACILITY” and not otherwise defined under this heading “THE LIQUIDITY FACILITY” shall have the meanings assigned to such terms in the Liquidity Facility. Terms used in this section have the meanings given to these terms in the Liquidity Facility, which may not be the same as in other sections of this Official Statement.

General

Pursuant to the Liquidity Facility, the Liquidity Provider agrees, on the terms and conditions therein, to make Liquidity Advances with its own funds to the Paying Agent for the account of Metropolitan for the purchase at the Purchase Price of all (a) Eligible Bonds tendered or deemed tendered from time to time during the Commitment Period pursuant to optional tenders by Owners in accordance with the terms of the Paying Agent Agreement, the Subordinate Resolutions and the 2021A Bonds, and (b) Eligible Bonds required to be purchased on a Mandatory Purchase Date during the Commitment Period in accordance with the terms of the Paying Agent Agreement, the Subordinate Resolutions and the 2021 Bonds, in each case to the extent such Eligible Bonds are not remarketed in accordance with the Paying Agent Agreement and the Remarketing Agreement. The aggregate principal amount (or portion thereof) of any Eligible Bond purchased on any Purchase Date shall be an Authorized Denomination, and in any case the aggregate principal amount of all Eligible Bonds purchased on any Purchase Date shall not exceed the Available Principal Commitment on such date. The portion of the Purchase Price corresponding to accrued interest, if any, on the Eligible Bonds purchased on any Purchase Date shall not, in the aggregate, exceed the lesser of (i) the Available Interest Commitment on such date, and (ii) the actual amount of interest accrued and unpaid on such Eligible Bonds to but excluding such date.

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE LIQUIDITY PROVIDER TO PURCHASE ELIGIBLE BONDS TENDERED OR DEEMED TENDERED BY THE OWNERS

THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE IMMEDIATELY TERMINATED OR SUSPENDED WITHOUT NOTICE. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE ELIGIBLE BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE. THE LIQUIDITY FACILITY DOES NOT GUARANTEE THE PAYMENT OF PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST OR PREMIUM, IF ANY, ON THE 2021A BONDS IN THE EVENT OF NON-PAYMENT OF SUCH PRINCIPAL, REDEMPTION PRICE, INTEREST OR PREMIUM, IF ANY, BY METROPOLITAN. IN ADDITION, THE LIQUIDITY PROVIDER HAS NO OBLIGATION TO PAY ANY INTEREST DUE ON THE 2021A BONDS ON ANY INTEREST PAYMENT DATE UNLESS SUCH INTEREST IS DUE IN CONNECTION WITH A TENDER OR MANDATORY PURCHASE OF SAID 2021A BONDS. NO SERIES OF BONDS OTHER THAN THE 2021A BONDS ARE PAYABLE FROM THE LIQUIDITY FACILITY.

The Commitment Period is the period commencing on June 16, 2021 to and including 5:00 p.m. (New York time) on the earliest of: (a) June 13, 2025 (the “Expiration Date”), (b) the date on which all of the 2021A Bonds have been redeemed or paid in full; (c) the date on which the Available Commitment shall be terminated in its entirety; (d) the Purchase Termination Date; (e) the first (1st) Business Day next succeeding the Conversion Date; and (f) the earlier of (A) the first (1st) Business Day next succeeding the Substitution Date and (B) the Substitution Date, provided, that the Bank has honored any Notice of Bank Purchase in connection with such substitution.

The Available Commitment consists of the sum of the Available Principal Commitment and the Available Interest Commitment, in each case as of such day.

“*Available Interest Commitment*” means the amount available under the Liquidity Facility to pay accrued interest on Eligible Bonds which shall be an amount equal to thirty-four (34) days’ interest on the Available Principal Commitment at an assumed per annum rate of interest equal to 12% per annum, computed on the basis of a year of 365 days and actual days elapsed, which initially shall equal \$2,483,323. The Available Interest Commitment shall be adjusted from time to time as follows: (a) downward by an amount that bears the same proportion to such amount as the amount of any reduction in the Available Principal Commitment in accordance with clause (a), (b) or (d) of the definition of “Available Principal Commitment” bears to the initial Available Principal Commitment and (b) upward by an amount that bears the same proportion to such amount as the amount of any increase in the Available Principal Commitment in accordance with clause (c) of the definition of “Available Principal Commitment” bears to the initial Available Principal Commitment; *provided, however,* the Available Interest Commitment shall never exceed \$2,483,323. Any adjustments to the Available Interest Commitment shall occur simultaneously with any corresponding adjustments to the Available Principal Commitment.

“*Available Principal Commitment*” initially means \$222,160,000, representing an amount equal to the aggregate principal amount of the 2021A Bonds outstanding on the date of delivery thereof. The Available Principal Commitment shall be adjusted from time to time as follows:

- (a) downward by the principal amount of 2021 Bonds redeemed, paid or converted to any interest rate mode other than the Weekly Mode or the Daily Mode,
- (b) downward by the principal amount of any Eligible Bonds purchased by the Liquidity Provider pursuant to the terms of the Liquidity Facility, and
- (c) upward by the principal amount of any Eligible Bonds theretofore purchased by the Liquidity Provider which are remarketed by the Remarketing Agent and for which the Liquidity Provider has received immediately available funds equal to the par amount thereof plus accrued interest;

(d) upon any reduction in the Available Principal Commitment pursuant to the terms of the Liquidity Facility, to the extent such reduction is not included in clause (a) of this definition, downward by the amount of such reduction.

provided, however, that the sum of (i) the Available Principal Commitment *plus* (ii) the aggregate principal amount of Bank Bonds shall never exceed \$222,160,000. Any adjustments to the Available Principal Commitment pursuant to clauses (a), (b), (c) or (d) above shall occur simultaneously with the occurrence of the events described in such clauses.

Immediate Termination Events

The following events shall be “Immediate Termination Events”:

(a) Metropolitan shall fail to (i) pay when and as required to be paid (whether regularly scheduled, by scheduled maturity, required prepayment, acceleration or otherwise), any amount of principal of or interest or premium, if any, of any 2021A Bonds (including, without limitation, Bank Bonds other than Bank Bonds which are accelerated pursuant to the terms set forth under the caption “– Remedies” below for any reason other than nonpayment as set forth in this paragraph (a) under the caption “– Immediate Termination Events”) or (ii) repay or cause to be repaid when due (whether regularly scheduled, by scheduled maturity, required prepayment, acceleration or otherwise) any amounts with respect to the principal of or interest, if any, on any Liquidity Advance (other than Liquidity Advances which are accelerated pursuant to the terms set forth under the caption “– Remedies” below for any reason other than nonpayment as set forth in this paragraph (a) under the caption “– Immediate Termination Events”), including, without limitation, Metropolitan’s failure to pay the Interest Component, if any, together with all interest thereon, pursuant to the Liquidity Facility;

(b) there is entered against Metropolitan a final non-appealable judgment or order for the payment of money in an aggregate amount exceeding \$10,000,000 or any number of final non-appealable judgments or orders for the payment of money which, in the aggregate, exceed \$50,000,000 (net of any amounts paid or fully covered by independent third party insurance as to which the relevant insurance company does not dispute coverage) and such judgment or judgments remain unsatisfied, unstayed or undischarged for a period of at least one hundred eighty (180) days; or

(c) Metropolitan shall fail to pay or cause to be paid when due any amounts with respect to the principal of or interest or premium, if any, on any Parity and Senior Debt including, without limitation, any principal or mandatory sinking fund redemption, any interest, or any premium thereon (whether regularly scheduled, by scheduled maturity, required prepayment, acceleration, demand or otherwise) beyond any applicable grace period (other than non-payment of any Parity and Senior Debt that is accelerated by a credit or liquidity provider, as applicable, pursuant to the provisions of the related credit or liquidity facility, as applicable, for any reason other than the non-payment of principal thereof or interest thereon when due), or pursuant to the provisions of any resolution, indenture, contract or instrument pursuant to which any such Parity and Senior Debt has been issued, the maturity of any Parity and Senior Debt shall, or may, as a result of the occurrence of a default on the payment of principal of or interest on such Parity and Senior Debt under such resolution, indenture, contract or instrument, be accelerated or required to be prepaid prior to the stated maturity thereof (other than non-payment of any Parity and Senior Debt that is accelerated by a credit or liquidity provider pursuant to the provisions of the related credit or liquidity facility, as applicable, for any reason other than the payment of principal thereof or interest thereon when due); or

(d) Metropolitan shall commence a voluntary case or other proceeding seeking (i) to adjudicate it bankrupt or insolvent or seeking liquidation, reorganization, moratorium, debt adjustment or other relief for Metropolitan under any bankruptcy, insolvency, or other similar law now or hereafter in effect or (ii) the appointment of a receiver, liquidator, custodian, or other similar official with respect to Metropolitan or any substantial part of its property, or shall consent to or acquiesce in such relief or the

appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it; or

(e) any Governmental Authority having jurisdiction over Metropolitan or Metropolitan shall impose or declare a debt moratorium, debt restructuring or comparable extraordinary restrictions on repayment when due and payable of the principal of or interest on the 2021A Bonds (including Bank Bonds) or Liquidity Advances or on all Debt of Metropolitan secured by or payable from Net Operating Revenues in a finding or ruling or through the enactment or adoption of legislation or the issuance of an executive order or of a judgment or decree; or

(f) Metropolitan shall make a general assignment for the benefit of creditors, or publicly declare a moratorium with respect to its debts, or Metropolitan shall admit in writing its inability to pay its debts as they become due or shall become insolvent within the meaning of Section 101(32) of the United States Bankruptcy Code, or shall take any action to authorize any of the foregoing; or

(g) an involuntary case or other proceeding shall be commenced against Metropolitan seeking (i) to adjudicate it bankrupt or insolvent or seeking liquidation, reorganization, or other relief with respect to Metropolitan's debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect, or (ii) the appointment of a custodian, receiver, liquidator, trustee or other similar official for Metropolitan or for any substantial part of Metropolitan's property, and such proceeding or case shall not be dismissed, vacated, stayed or discharged within sixty (60) days after the filing thereof or an order of relief shall be entered against Metropolitan under the federal bankruptcy laws as now or hereafter in effect; or

(h) (i) the General Manager, General Counsel or Chief Financial Officer of Metropolitan shall, in writing to the Paying Agent, the Liquidity Provider or otherwise, (A) claim that any of the provisions of the Liquidity Facility, the Subordinate Resolutions, the Paying Agent Agreement or the 2021A Bonds that provide for (x) the payment of principal or interest on the 2021A Bonds (including Bank Bonds), Subordinate Bonds or First Tier Parity Obligations for borrowed money evidenced by notes, bonds or other similar instruments (including the repayment of any Liquidity Advances) or (y) the pledge of and lien on the Net Operating Revenues securing 2021A Bonds, Bank Bonds and Liquidity Advances under the Liquidity Facility are not valid or binding on Metropolitan, and/or (B) repudiate its obligations under any of the provisions of the Liquidity Facility, the Resolutions, the Paying Agent Agreement or the 2021A Bonds that provide for (x) the payment of principal or interest on the 2021A Bonds (including Bank Bonds), Subordinate Bonds or First Tier Parity Obligations for borrowed money evidenced by notes, bonds or other similar instruments (including the repayment of any Liquidity Advances) or (y) the pledge of and lien on the Net Operating Revenues securing 2021A Bonds, Bank Bonds and Liquidity Advances owed to the Liquidity Provider under the Liquidity Facility; or (ii) any court of competent jurisdiction or other governmental entity with jurisdiction to rule on the validity of the Liquidity Facility, the Subordinate Resolutions, the Paying Agent Agreement or the 2021A Bonds shall find or rule (in a final, non-appealable finding, judgment or other ruling) that (A) any provision in the Liquidity Facility, the Subordinate Resolutions, the Paying Agent Agreement or the 2021A Bonds that provides for (x) the payment of principal of or interest on the 2021A Bonds (including Bank Bonds), Subordinate Bonds or First Tier Parity Obligations for borrowed money evidenced by notes, bonds or other similar instruments (including the repayment of any Liquidity Advances) incurred or issued pursuant to the Subordinate Resolutions or (y) the pledge of and lien on the Net Operating Revenues securing 2021A Bonds, Bank Bonds and Liquidity Advances under the Liquidity Facility, is null and void, not valid or not binding on Metropolitan or (B) any such provision shall, for any reason, cease to be valid and binding on Metropolitan; or (iii) any court of competent jurisdiction or other governmental entity with jurisdiction shall find or rule that the holders of 2021A Bonds (including Bank Bonds), Subordinate Bonds or First Tier Parity Obligations cease to have an effective pledge created or purported to be created by the Master Subordinate Resolution; or

(i) each of Fitch, S&P and Moody's (in each case, to the extent any such Rating Agency is then providing such a rating) shall have (i) assigned a District Rating below "BBB-" (or its equivalent), in the case of Fitch or S&P, or "Baa3" (or its equivalent), in the case of Moody's, or (ii) withdrawn or suspended its District Rating for credit-related reasons; or

(j) dissolution or termination of the existence of Metropolitan if an appropriate Governmental Authority does not, contemporaneously with the dissolution or termination of the existence of Metropolitan, assume the obligations of Metropolitan under the Liquidity Facility and the other Related Documents (other than the Remarketing Agreement, the Official Statement and the Fee Agreement) to which it is a party to pay principal of or interest on the 2021A Bonds (including Bank Bonds), the Liquidity Advances, the Subordinate Bonds and First Tier Parity Obligations from the pledge of and lien on the Net Operating Revenues.

Events of Default

The following events shall be "Events of Default":

(a) an event of default or default shall have occurred and shall be continuing under any of the Related Documents to which Metropolitan is a party (other than an Event of Default specified below under the caption "- Events of Default"); or

(b) Metropolitan shall fail to pay or cause to be paid when due (i) certain amounts payable under the Liquidity Facility (other than as described in paragraph (a) under the caption "- Immediate Termination Events" above), or (ii) any other amount payable pursuant to the Liquidity Facility or the 2021A Bonds (including Bank Bonds) or any other Related Document; or

(c) Metropolitan shall fail to observe or perform certain specified covenants set forth in the Liquidity Facility; or

(d) Metropolitan shall fail to perform or observe any other covenant or agreement (not specified in any other Event of Default set forth under the caption "- Events of Default") contained in any Related Document on its part to be performed or observed and such failure continues for sixty (60) days after the Liquidity Provider giving an Authorized Representative of Metropolitan written notice thereof; *provided* that so long as Metropolitan, in the reasonable judgment of the Liquidity Provider, shall be proceeding with due diligence to remedy any default in the due performance or observance of such covenants which, if begun and prosecuted with due diligence, cannot be completed within a period of sixty (60) days, but can be cured, then such sixty (60) day period shall be extended to the extent as shall be necessary to enable Metropolitan to begin and complete the remedying of such default through the exercise of due diligence; or

(e) the powers of Metropolitan shall be limited in any way that prevents Metropolitan from fixing, charging or collecting rates and charges for the use and services of the Water System in an amount sufficient to pay the 2021A Bonds (including Bank Bonds) and Liquidity Advances, the Subordinate Bonds and First Tier Parity Obligations as they become due; or

(f) any of Fitch, S&P or Moody's shall have (i) assigned a District Rating below "A-" (or its equivalent), in the case of Fitch or S&P, or "A3" (or its equivalent), in the case of Moody's, or (ii) withdrawn (for reasons other than defeasance or redemption of the 2021A Bonds) or suspended a District Rating; or

(g) there shall be appointed or designated with respect to Metropolitan an entity such as an organization, board, commission, authority, agency or body to monitor or declare a financial emergency or similar state of financial distress with respect to Metropolitan, or there shall be declared by Metropolitan

or by any legislative or regulatory body with competent jurisdiction over Metropolitan, the existence of a state of financial emergency or similar state of financial distress in respect of Metropolitan; or

(h) a Change in Law shall occur which could reasonably be expected to result in a material adverse effect on the ability of Metropolitan to pay any Obligation when due, or to fix, charge or collect rates and charges in an amount sufficient to pay Metropolitan's debts as they become due; or

(i) any representation or warranty made by or on behalf of Metropolitan in the Liquidity Facility, the Subordinate Resolutions or the Paying Agent Agreement or in any certificate or statement delivered hereunder or thereunder shall prove to have been incorrect or untrue in any material respect when made or deemed to have been made; or

(j) Metropolitan shall (A) fail to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Debt (other than Obligations under the Liquidity Facility and Parity and Senior Debt) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than \$10,000,000 ("Other Debt") and such failure shall continue for a period of thirty (30) days after the earlier of (x) the Liquidity Provider giving District written notice thereof and (y) the date on which such failure shall first become known to an Authorized Representative of Metropolitan; or (B) fail to observe or perform any other agreement or condition relating to any such Other Debt or contained in any document evidencing, securing or relating to any of the foregoing, or any other default or event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Other Debt (or a trustee or agent on behalf of such holder or holders) to cause with the giving of notice if required, such Other Debt to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Other Debt to be made, prior to its stated maturity and such failure or other default or event shall continue for a period of thirty (30) days after the earlier of (x) the Liquidity Provider giving an Authorized Representative of Metropolitan written notice thereof and (y) the date on which such failure shall first become known to an Authorized Representative of Metropolitan; or

(k) fail to observe or perform any other agreement or condition relating to any Parity and Senior Debt or contained in any document evidencing, securing or relating to any of the foregoing, or any other default or event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Parity and Senior Debt (or a trustee or agent on behalf of such holder or holders) to cause with the giving of notice if required, such Parity and Senior Debt to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Parity and Senior Debt to be made, prior to its stated maturity; or

(l) (i) Metropolitan shall initiate any legal proceedings to seek any adjudication that any of the provisions of the Liquidity Facility, the Subordinate Resolutions, the Paying Agent Agreement, the Remarketing Agreement or the 2021A Bonds that provide for (x) the payment of principal or interest on the 2021A Bonds, Bank Bonds or the Liquidity Advances or (y) the pledge of and lien on the Net Operating Revenues securing 2021A Bonds, the Bank Bonds and the Liquidity Advances are not valid or binding on Metropolitan; or (ii) any material provision of the Liquidity Facility or any other Related Document, other than a provision described in paragraph (h) under the caption "– Immediate Termination Events" above, shall at any time for any reason cease to be valid and binding on Metropolitan, including, without limitation, as a result of any legislative or administrative action by a Governmental Authority with competent jurisdiction or shall be declared in a final non-appealable judgment by any court with competent jurisdiction to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be publicly contested by Metropolitan; or

(m) Dissolution or termination of the existence of Metropolitan.

Remedies

- (a) Upon the occurrence and continuance of any Event of Default, the Liquidity Provider may:
- (i) give written notice of such Event of Default to the Fiscal Agent, the Paying Agent, Metropolitan and the Remarketing Agent and request the Paying Agent to cause a mandatory purchase of the 2021A Bonds in accordance with the Paying Agent Agreement and the 2021A Bonds and prohibit the remarketing of the 2021A Bonds, thereby causing the Bank's obligations under the Liquidity Facility to terminate thirty (30) days after the Paying Agent's receipt of such notice;
 - (ii) by written notice to Metropolitan, declare the outstanding amount of the Liquidity Advances under the Liquidity Facility to be immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are expressly waived;
 - (iii) take any other action or remedy permitted by law or in equity to enforce the rights of the Liquidity Provider hereunder and under the 2021A Bonds and any Related Document; and/or
 - (iv) deliver written notice to Metropolitan and the Paying Agent that all Bank Bonds shall be subject to immediate mandatory redemption and upon delivery of such notice, the Bank Bonds shall be subject to immediate mandatory redemption.
- (b) Upon the occurrence of any Immediate Termination Event, (i) the Commitment Period and the obligation of the Liquidity Provider to purchase Eligible Bonds shall immediately terminate without notice or demand, and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds; upon such Immediate Termination Event, the Liquidity Provider shall promptly give written notice of the same to the Paying Agent, Metropolitan and the Remarketing Agent; provided, that the Liquidity Provider shall incur no liability of any kind by reason of its failure to give such notice, and such failure shall in no way affect the termination of the Available Commitment and the Liquidity Provider's obligation to purchase Eligible Bonds pursuant to the Liquidity Facility; and (ii) the Liquidity Provider may require that all Obligations (other than Bank Bonds but including Liquidity Advances) become due and payable immediately, without demand therefor; provided, however, that (A) if and to the extent any Event of Default pursuant to the Liquidity Facility is deemed an "Event of Default" under the Subordinate Resolutions permitting the acceleration of all Subordinate Bonds pursuant thereto, then, in such event, the Liquidity Provider may require that all Bank Bonds become due and payable immediately, without demand therefor and/or (B) if an Immediate Termination Event of the type described in paragraph (d), (f), or (g) under the caption "- Immediate Termination Events" above shall occur, all Obligations (other than Bank Bonds but including Liquidity Advances) shall automatically become due and payable pursuant to the terms of the Liquidity Facility without further action.
- (c) Upon the occurrence of a Suspension Event resulting from an Event of Default under clause (i) of paragraph (l) under the caption "- Events of Default" above, the Liquidity Provider's obligations to purchase Eligible Bonds shall be immediately suspended without notice or demand and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds until the Available Commitment is reinstated as described in this paragraph (c) under the caption "- Remedies." Promptly upon the Liquidity Provider's obtaining knowledge of any such Suspension Event, the Liquidity Provider shall give written notice of the same to Metropolitan, the Paying Agent and Remarketing Agent of such suspension; provided, however, that the Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Liquidity Provider's obligations under the Liquidity Facility. If a court with jurisdiction to rule on the validity of the documents described in clause (i) of paragraph (l) under the caption "- Events of Default" above shall enter a final, non-appealable judgment that any such document is not valid and binding on Metropolitan, then the Available Commitment, the Commitment Period and the Liquidity Provider's obligation to purchase Eligible Bonds shall immediately terminate. If a court with jurisdiction to rule on the validity of such documents shall

enter a final, non-appealable judgment that such documents are valid and binding on Metropolitan, the Liquidity Provider's obligations to purchase Eligible Bonds under the Liquidity Facility shall be automatically reinstated and the terms of Liquidity Facility will continue in full force and effect (unless the Liquidity Provider's obligation to purchase Eligible Bonds shall otherwise have terminated or been suspended in accordance with the terms of the Liquidity Facility). Notwithstanding the foregoing, if, upon the earlier of the Expiration Date or the date which is three (3) years after the effective date of suspension of the Liquidity Provider's obligations as described under this paragraph (c) under the caption “– Remedies,” litigation is still pending or a judgment regarding the validity of the obligations described in clause (i) of paragraph (l) under the caption “– Events of Default” above as is the subject of such Suspension Event has not been obtained, then the Available Commitment, the Commitment Period and the obligation of the Liquidity Provider to purchase Eligible Bonds shall at such time immediately terminate, and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds.

(d) Upon the occurrence of a Suspension Event resulting from a Default described on paragraph (g) under the caption “– Immediate Termination Events” above, the Liquidity Provider's obligation to purchase Eligible Bonds shall be immediately suspended without notice or demand and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds until such obligation is reinstated as described in this paragraph (d) under the caption “– Remedies.” Promptly upon the Liquidity Provider obtaining knowledge of any such Suspension Event, the Liquidity Provider shall give written notice of the same to Metropolitan, the Remarketing Agent and the Paying Agent; provided, however, that the Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way effect the suspension of the Liquidity Provider's obligations under the Liquidity Facility. If a court with competent jurisdiction to rule on the proceedings or case causing such Default under paragraph (g) under the caption “– Immediate Termination Events” above shall terminate such proceedings or case prior to such proceedings or case becoming an Immediate Termination Event, the Liquidity Provider's obligations shall be automatically reinstated and the terms of the Liquidity Facility will continue in full force and effect (unless the Liquidity Provider's obligation to purchase 2021A Bonds under the Liquidity Facility shall otherwise have terminated or been suspended or in accordance with the terms thereof).

Failure to take action in regard to one or more Events of Default shall not constitute a waiver of, or the right to take action in the future in regard to, such or subsequent Events of Default.

Upon the occurrence of any Event of Default, Suspension Event or Immediate Termination Event, all Obligations due and payable shall bear interest at the Default Rate.

THE LIQUIDITY PROVIDER

The information under this caption “THE LIQUIDITY PROVIDER” has been supplied by the initial Liquidity Provider, Bank of America, N.A. Neither Metropolitan nor the Underwriter has verified the accuracy or adequacy of the information provided herein. Neither Metropolitan nor the Underwriter has made any attempt to determine whether, and no assurance can be given that, the Liquidity Provider is or will be capable of fulfilling its obligations under the Liquidity Facility.

Bank of America, N.A. (the “Bank”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “Corporation”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of March 31, 2021, the Bank had consolidated assets of \$2.317 trillion, consolidated deposits of \$1.960 trillion and stockholder's equity of \$220.432 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2020, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the “SEC”).

The SEC maintains a website at www.sec.gov which contains the filings that the Corporation files with the SEC such as reports, proxy statements and other documentation. The reports, proxy statements and other information the Corporation files with the SEC are also available at its website, www.bankofamerica.com.

The information concerning the Corporation and the Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case, as filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporation
Office of the Corporate Secretary/Shareholder Relations
One Bank of America Center
1BAC 28th floor NC1-028-28-03
Charlotte, NC 28255

PAYMENTS OF THE PURCHASE PRICE OF THE 2021A BONDS WILL BE MADE FROM LIQUIDITY ADVANCES UNDER THE LIQUIDITY FACILITY IF REMARKETING PROCEEDS ARE NOT AVAILABLE; BUT ONLY SO LONG AS THE LIQUIDITY FACILITY HAS NOT BEEN TERMINATED OR SUSPENDED IN ACCORDANCE WITH ITS TERMS. THE 2021A BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE 2021A BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date of the most recent filings referenced herein, or that the information contained or referred to in under this caption “THE LIQUIDITY PROVIDER” is correct as of any time subsequent to the referenced date.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Metropolitan is a metropolitan water district created in 1928 by a vote of the electorates of eleven southern California cities under authority of the Act to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member agencies. The members of Metropolitan are not required to purchase water from Metropolitan. Metropolitan’s service area comprises approximately 5,200 square miles and includes all or portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. For a listing of the members and general information on Metropolitan’s service area, see APPENDIX A—“THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA.” For a discussion of selected demographic and economic information with respect to Metropolitan’s service area,

see APPENDIX E—“SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.” For information on the finances and operations of Metropolitan, see Appendix A and Appendix B.

OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO

Operating Revenues

Water transactions (which includes water sales, wheeling and exchanges) comprise Metropolitan’s principal source of revenues. Water revenues include revenues from water sales, wheeling and exchanges received by Metropolitan from charges for water transactions. Other significant revenue sources include charges for the availability of water, including, without limitation, Metropolitan’s readiness-to-serve charge, standby charge, and capacity charge. See Appendix A under the captions “METROPOLITAN REVENUES – Water Revenues,” “– Rate Structure” and “– Other Charges.” In meeting the requirements of the Subordinate Resolutions related to rates and additional obligations, Metropolitan may include in its calculations, to the extent available, revenues which include, among other things, investment income and income from the sale of energy from Metropolitan’s hydroelectric power recovery plants and Interest Subsidy Payments that may be received by Metropolitan in connection with any Build America Bonds. As of May 1, 2021, Metropolitan had no Build America Bonds remaining Outstanding. *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the revenue bonds issued by Metropolitan, including the 2021A Bonds. For a description of “Operating Revenues” and the effect of Operating Expenses on the amount of revenues available for payment of the 2021A Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS.” See also APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS AND THE PAYING AGENT AGREEMENT.” For information on Metropolitan’s revenues and expenses, including historical and projected revenues and expenses, see Appendix A under the captions “METROPOLITAN REVENUES,” “METROPOLITAN EXPENSES,” and “HISTORICAL AND PROJECTED REVENUES AND EXPENSES.” See also Metropolitan’s financial statements contained in Appendix B.

Existing Bonds and Obligations Payable from Net Operating Revenues

Metropolitan covenants in the Master Subordinate Resolution that except for Senior Debt, no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the Outstanding Subordinate Bonds or First Tier Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS – Additional Indebtedness Under the Master Subordinate Resolution.”

Metropolitan has issued and incurred Senior Debt, including Senior Bonds pursuant to the Senior Debt Resolution which were outstanding as of May 1, 2021 in the amounts listed in Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Revenue Bonds,” and certain Senior Obligations which are described in Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations.” See also “– Anticipated Financings” below. Principal of and interest on the 2021A Bonds will be payable from Net Operating Revenues on a basis subordinate to the Senior Bonds and Senior Obligations.

Metropolitan has issued Subordinate Bonds pursuant to the applicable Subordinate Resolutions, which Subordinate Bonds were outstanding as of May 1, 2021 in the amounts listed in Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations,” and has incurred certain First Tier Parity Obligations which are described in Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations.” See also “– Anticipated Financings” below. Principal of and interest on the 2021A Bonds will be payable from Net Operating Revenues on parity with the other Subordinate Bonds and First Tier Parity Obligations.

Anticipated Financings

In the near term, Metropolitan expects to issue additional Senior Bonds to refund all or portions of various Series of outstanding Senior Bonds and certain Senior Obligations, which other Senior Obligations are expected to be issued to provide temporary financing to refund a portion of a series of Metropolitan's outstanding Subordinate Bonds. See "INTRODUCTION – Other Refunding Transactions Being Undertaken by Metropolitan."

Metropolitan anticipates that it will issue revenue bonds, notes or other evidences of indebtedness under the Senior Debt Resolution in addition to the outstanding Senior Bonds and Senior Obligations to finance improvements to its Water System and for other lawful purposes. Depending on market conditions and other factors, Metropolitan may also refund or refinance outstanding revenue bonds or other obligations from time to time. Metropolitan also anticipates it will also issue or incur future Subordinate Bonds and other First Tier Parity Obligations under the Master Subordinate Resolution in addition to the 2021A Bonds and the outstanding Subordinate Bonds and other Subordinate Obligations, subject to the limitations in the Act. Metropolitan's current Capital Investment Plan is described in Appendix A under the caption "CAPITAL INVESTMENT PLAN." Financial projections for fiscal years 2020-21 through 2025-26 assume the issuance of approximately \$675 million (including the proceeds of Metropolitan's Water Revenue Bonds, 2021 Series A issued in February 2021) in additional water revenue bonds over such period to finance the Capital Investment Plan. These water revenue bonds may be issued either as Senior Bonds or Subordinate Bonds.

The Senior Debt Resolution and Master Subordinate Resolution each permit subsequent authorizations of additional bonds as described herein. The Senior Debt Resolution and Master Subordinate Resolution establish limitations on the issuance of additional obligations payable from Net Operating Revenues senior to and on parity with the 2021A Bonds as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS."

On September 15, 2020, Metropolitan's Board adopted Ordinance 151 determining that the interests of Metropolitan required the use of up to an aggregate principal amount of \$500,000,000 of revenue bonds to fund a portion of its capital expenditures. As of May 1, 2021, Metropolitan had issued \$103,890,000 principal amount of revenue bonds utilizing a portion of the authorization under Ordinance 151. The issuance of the balance of the \$500,000,000 aggregate principal amount of revenue bonds under the Ordinance 151 is subject to board approval in future supplemental bond authorizations. The Board may from time to time in the future adopt other ordinances supporting the authorization of the issuance of additional revenue bonds, including Senior Bonds and/or Subordinate Bonds.

From time to time Metropolitan may enter into interest rate swaps, pursuant to which, for example, fixed rate obligations are synthetically converted to variable rate obligations or vice versa. See Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations."

Debt Service Requirements

The following table shows the estimated annual debt service requirements for Metropolitan's outstanding Senior Bonds and Subordinate Bonds, and the 2021A Bonds.

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

Fiscal Year Ending June 30	Outstanding Senior Bonds Debt Service ⁽¹⁾⁽²⁾⁽⁵⁾	Outstanding Subordinate Bonds Debt Service ⁽³⁾⁽⁴⁾⁽⁵⁾	2021A Bonds Principal	2021A Bonds Interest ⁽⁵⁾	Total Subordinate Bonds Debt Service ⁽³⁾⁽⁴⁾⁽⁵⁾	Total Debt Service ⁽⁶⁾
2022	\$ 176,319,844	\$ 102,280,239	--	\$ 4,790,325	\$ 107,070,564	\$ 283,390,408
2023	169,302,249	113,302,312	--	4,998,600	118,300,912	287,603,160
2024	173,652,065	103,402,259	--	4,998,600	108,400,859	282,052,924
2025	159,616,929	121,554,265	--	4,998,600	126,552,865	286,169,794
2026	141,951,157	139,624,675	--	4,998,600	144,623,275	286,574,432
2027	157,132,959	124,682,238	--	4,998,600	129,680,838	286,813,796
2028	153,808,519	128,883,038	--	4,998,600	133,881,638	287,690,156
2029	222,113,144	41,640,753	--	4,998,600	46,639,353	268,752,498
2030	159,087,893	88,697,513	--	4,998,600	93,696,113	252,784,006
2031	221,774,847	32,566,197	--	4,998,600	37,564,797	259,339,644
2032	231,071,424	34,619,843	--	4,998,600	39,618,443	270,689,867
2033	201,215,759	68,830,031	--	4,998,600	73,828,631	275,044,389
2034	199,964,411	67,290,234	--	4,998,600	72,288,834	272,253,245
2035	219,209,635	45,968,981	--	4,998,600	50,967,581	270,177,217
2036	222,109,215	43,073,025	--	4,998,600	48,071,625	270,180,840
2037	179,742,539	85,426,059	--	4,998,600	90,424,659	270,167,199
2038	174,282,403	30,685,353	46,800,000	4,033,350	81,518,703	255,801,106
2039	145,781,450	5,160,222	33,510,000	3,254,456	41,924,678	187,706,128
2040	145,710,325	5,235,006	34,270,000	2,484,806	41,989,813	187,700,138
2041	145,634,200	5,306,753	35,055,000	1,697,541	42,059,294	187,693,494
2042	45,763,213	5,390,209	35,855,000	892,303	42,137,513	87,900,725
2043	45,719,053	5,470,291	36,670,000	68,756	42,209,047	87,928,100
2044	45,670,231	5,556,828	--	--	5,556,828	51,227,059
2045	45,628,719	5,649,597	--	--	5,649,597	51,278,316
2046	45,581,453	31,403,100	--	--	31,403,100	76,984,553
2047	45,512,784	31,373,659	--	--	31,373,659	76,886,444
2048	45,446,822	31,349,125	--	--	31,349,125	76,795,947
2049	29,911,875	4,268,878	--	--	4,268,878	34,180,753
2050	29,914,500	--	--	--	--	29,914,500
2051	13,512,750	--	--	--	--	13,512,750
2052	13,514,625	--	--	--	--	13,514,625
Total ⁽⁶⁾	<u>\$4,005,656,993</u>	<u>\$1,508,690,684</u>	<u>\$ 222,160,000</u>	<u>\$ 92,200,537</u>	<u>\$1,823,051,222</u>	<u>\$5,828,708,214</u>

Source: Metropolitan.

⁽¹⁾ Does not include any debt service for the RBC Short-Term Revolving Credit Facility. See Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – *Short-Term Revolving Credit Facility*.”

⁽²⁾ Assumes Metropolitan’s outstanding direct placement Water Revenue Refunding Bonds, 2020 Series B are refunded with variable rate bonds prior to their April 2, 2024 mandatory tender date, with the refunding bonds amortizing on July 1 in the years 2030-2035 and interest thereon at an assumed 2.25% per annum. Assumes Metropolitan’s outstanding Water Revenue Refunding Bonds, 2014 Series C-3, which are Term Mode Bonds, are refunded after the current call protection date for such bonds (which 2014C-3 Bonds are expected to be refunded with proceeds of Metropolitan’s 2021B Senior Bonds which are anticipated to be issued in July 2021). Interest after the call protection date is calculated at an assumed interest rate of 2.25% per annum. Actual amortization of refunding bonds and rates may differ from those set forth in this footnote.

(Footnotes to table continue on next page)

(Footnotes to table continued from prior page)

- (3) Excludes the 2016A Subordinate Bonds being refunded. Assumes that approximately \$10.1 million of the 2023 maturity of Metropolitan's Subordinate Water Revenue Refunding Bonds, 2019 Series A is refunded with variable rate bonds prior to its maturity date, with the refunding bonds amortizing in 2037 and interest thereon at an assumed 2.25% per annum. Assumes that the 2028 maturity of Metropolitan's Subordinate Water Revenue Bonds, 2018 Series B is largely refunded with variable rate bonds prior to its maturity date, with the refunding bonds amortizing in the years 2033-2049 and interest thereon at an assumed 2.25% per annum. Assumes Metropolitan's Subordinate Water Revenue Refunding Bonds, 2017 Series B are refunded with variable rate bonds at their respective July 1 optional redemption dates, with the refunding bonds amortizing on July 1 in the years 2028-2033 and interest thereon at an assumed 2.25% per annum (the 2021 maturity of which 2017B Subordinate Bonds is expected to be redeemed on July 1 with proceeds of a draw to be made under the RBC Short-Term Revolving Credit Facility, with the short-term notes evidencing such draw expected to be refunded with proceeds of Metropolitan's 2021B Senior Bonds which are anticipated to be issued in July 2021). Does not include any debt service for short-term notes issued pursuant to the Subordinate Short-Term Note Purchase Agreements. As described under "PLAN OF REFUNDING," Metropolitan expects to apply a portion of the proceeds of the 2021A Bonds to prepay its \$46.8 million of outstanding 2019A Subordinate Short-Term Refunding Notes issued pursuant to the Subordinate Short-Term Note Purchase Agreements. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS – Outstanding Subordinate Obligations."
- (4) Interest on the Subordinate Bonds that are Index Tender Bonds is calculated at an assumed interest rate of 2.25% per annum.
- (5) Of Metropolitan's \$825.3 million principal amount of outstanding variable rate bonds reflected in this table (after giving effect to the issuance of the 2021A Bonds, \$331.9 million of Senior Bonds and \$493.4 million of Subordinate Bonds), interest on \$438.7 million aggregate amount of such variable rate bonds is hedged by interest rate swap agreements. Debt service is calculated taking into account the assumed fixed payor rates of interest to be paid under the respective interest rate swap agreements. For the remaining variable rate bonds, interest is calculated at an assumed interest rate of 2.25% per annum.
- (6) Totals are rounded. Actual debt service may differ from assumptions utilized in preparing this table.

Summary of Net Operating Revenues

For a description of actual and projected Net Operating Revenues available for debt service on the outstanding Senior Debt, Subordinate Bonds and other Subordinate Obligations of Metropolitan, including additional revenue bonds that Metropolitan projects it will issue, see the table included under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in Appendix A. See also Appendix A under the caption "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES – Water Revenues."

Debt Service Coverage

For a summary of actual and projected debt service coverage on the outstanding Senior Bonds and Subordinate Bonds, see the table included under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in Appendix A.

Financial Reserve Policy

For a summary of Metropolitan's financial reserve policy and its unrestricted reserves and other related matters, see Appendix A under the caption "METROPOLITAN REVENUES – Financial Reserve Policy."

Metropolitan's Investment Portfolio

Metropolitan's investment portfolio consists of the total cash and investments from all of its funds, which are derived from various sources, including Net Operating Revenues, property tax collections, hydroelectric power sales, investment earnings and invested construction funds. See Appendix A under the

caption “METROPOLITAN REVENUES – Summary of Revenues by Source.” Metropolitan’s investment portfolio also includes amounts held as collateral, from time to time, by Metropolitan’s swap counterparties. See Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

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

ACCOUNTING AND BUDGET MATTERS

Accounting Policies

Metropolitan operates as a utility enterprise and is accounted for as an enterprise fund. A summary of Metropolitan’s significant accounting policies is contained in Note 1 to Metropolitan’s full accrual basis financial statements for the Fiscal Years ended June 30, 2020 and June 30, 2019. See Appendix B.

Budgetary Accounting Method

Metropolitan’s budgeting and budgetary financial reporting is presented using a modified accrual basis. The modified accrual basis of accounting that Metropolitan uses varies from the full accrual basis of accounting utilized in Metropolitan’s audited annual financial statements in the following respects: depreciation and amortization are not recorded and payments for debt service and pay-as-you-go construction are recorded when paid. Under this modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus, water revenues are recognized in the month the water transaction occurs and expenses are recognized when goods have been received and services have been rendered. See Appendix A under the captions “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES.”

Financial Statements

The Basic Financial Statements of Metropolitan for the Fiscal Years ended June 30, 2020 and June 30, 2019 and Basic Financial Statements for the Nine Months Ended March 31, 2021 and 2020 (Unaudited) are included in Appendix B. Metropolitan routinely prepares unaudited quarterly financial statements, and although Metropolitan is not obligated to do so, such unaudited quarterly financial statements are generally filed by Metropolitan voluntarily with the MSRB’s EMMA System, when available (typically approximately two months after the end of the relevant fiscal quarterly period). Such filing of Metropolitan’s unaudited quarterly financial statements is not required pursuant to any continuing disclosure undertaking by Metropolitan relating to its outstanding bonds, and Metropolitan, does not have and has not incurred any obligation to continue to provide any such ongoing filing of its quarterly unaudited financial statements.

The Financial Statements for the Fiscal Years ended June 30, 2020 and June 30, 2019 have been audited by KPMG LLP, Metropolitan’s independent auditor (the “Independent Auditor”), as stated in its Independent Auditors’ Report, dated October 12, 2020, which is included in Appendix B. Metropolitan has not requested the consent of the Independent Auditor, nor has the Independent Auditor consented, to the inclusion of the Financial Statements or the Independent Auditors’ Report in Appendix B. The Independent Auditor has not been engaged to perform and has not performed, since the date of its Independent Auditors’ Report included herein, any procedures on the financial statements addressed in that report. The Independent Auditor also has not performed any procedures relating to this Official Statement.

The financial and statistical information contained elsewhere in this Official Statement is included herein for informational purposes only and a complete review of the audited Financial Statements and the

Notes to such Financial Statements set forth in Appendix B is integral to an understanding of such information. No independent auditor has audited the financial tables or other financial information or data included in this Official Statement, other than the audited Financial Statements for the Fiscal Years ended June 30, 2020 and June 30, 2019 included in Appendix B.

Budget System

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

RISK FACTORS

The ability of Metropolitan to pay principal of and interest on the 2021A Bonds depends primarily upon Metropolitan's receipt of Net Operating Revenues. Some of the factors and/or events which could prevent Metropolitan from receiving a sufficient amount of Net Operating Revenues to enable it to pay the principal of and interest on the 2021A Bonds are summarized below. The following description of risks is not an exhaustive list of the risks associated with the purchase of the 2021A Bonds and the order in which the information below is presented does not necessarily reflect the relative importance of the various risks or the probability of their occurrence. Other factors and events, including those described elsewhere in this Official Statement, could adversely affect Metropolitan's operations or financial condition. Investors must read the entire Official Statement, including the appendices hereto, to obtain information essential to making an informed investment decision.

Limited Obligations

The 2021A Bonds are special limited obligations of Metropolitan payable as to principal, redemption premium, if any, and interest thereon solely from and secured by a pledge of and a lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt and on parity with other Subordinate Bonds and First Tier Parity Obligations.

The 2021A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2021A Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of and interest on the 2021A Bonds or the Purchase Price upon a tender for purchase thereof does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues as described in this Official Statement.

Net Operating Revenues may not be realized by Metropolitan in amounts sufficient to pay principal of, redemption premium, if any, and interest on all Senior Debt and on the 2021A Bonds and all other Outstanding Subordinate Obligations and to reimburse the Liquidity Provider pursuant to the Liquidity Facility. Among other matters, water supply and demand, general and southern California economic conditions, increases in the cost of water or other expenses (such as wages and salaries, pension and other benefits, and/or power costs), and changes in law and government regulations could adversely affect the amount of Net Operating Revenues that Metropolitan receives. Further, the amount of future Net Operating Revenues that Metropolitan receives is subject to, among other things, its ability to provide water to its

member agencies and to establish, maintain and collect rates and charges sufficient to pay for Operating Expenses and debt service.

2021A Bonds Subordinate to Senior Debt

The pledge and lien securing the 2021A Bonds and other Subordinate Obligations is subordinate to the pledge and lien securing the Senior Debt. In addition, under the Senior Debt Resolution, Metropolitan is required to make monthly deposits from Net Operating Revenues into funds and accounts created under the Senior Debt Resolution equal to estimates of future principal and interest payments before Metropolitan may use Net Operating Revenues to pay principal of or interest on the 2021A Bonds and other Subordinate Obligations.

A Portion of Senior Debt and Subordinate Obligations May Be Subject to Acceleration

Metropolitan has entered into revolving credit facilities, short-term credit facilities, standby bond purchase facilities and direct purchase arrangements which provide, upon the occurrence of events of default, that the providers thereof may declare any outstanding Senior Debt thereunder to be immediately due and payable. In addition, the terms of the Master Subordinate Resolution permit any Bank Obligation (as defined therein) to be subject to acceleration. Interest rate swaps to which Metropolitan is a party are, under some circumstances, subject to early termination, upon which a substantial termination payment may become immediately due to the applicable counterparty. If any Senior Debt or Bank Obligations are accelerated or substantial swap termination payments become due, it may significantly reduce the amount of Net Operating Revenues available to pay debt service on the 2021A Bonds and other Subordinate Bonds and Subordinate Obligations.

Refinancing Risks in Connection with Certain Subordinate Bonds

Metropolitan currently expects to issue bonds or other indebtedness to refund all or a portion of certain maturities of the outstanding Subordinate Bonds (*i.e.*, the 2023 maturity of Metropolitan's Subordinate Water Revenue Refunding Bonds, 2019 Series A, the 2028 maturity of Metropolitan's Subordinate Water Revenue Bonds, 2018 Series B, and the 2021 through 2024 maturities of Metropolitan's Subordinate Water Revenue Refunding Bonds, 2017 Series B) (the "Subordinate Bonds Anticipated to be Refunded") on or prior to their respective maturity dates. Metropolitan does not intend to take into account the full scheduled payments of principal of the Subordinate Bonds Anticipated to be Refunded in setting its rates and charges prior to their respective maturity dates. In the event that Metropolitan does not have sufficient funds on hand to pay any Subordinate Bonds Anticipated to be Refunded on their respective maturity dates, Metropolitan's ability to pay such Subordinate Bonds Anticipated to be Refunded will be dependent on Metropolitan's ability to issue and sell refunding obligations to refund all or a portion of such Subordinate Bonds Anticipated to be Refunded on or prior to such maturity date. No assurance can be given that Metropolitan will be able to effect such a refinancing on sufficiently favorable terms. A variety of events could prevent access to the municipal securities market, prohibit Metropolitan from issuing such refunding obligations, or make the issuance of refunding obligations prohibitively expensive. In the event Metropolitan has not refinanced any Subordinate Bonds Anticipated to be Refunded coming due on or prior to their applicable maturity date, a failure of Metropolitan to provide sufficient funds to pay such Subordinate Bonds Anticipated to be Refunded at the applicable maturity date (from refunding proceeds or other available funds delivered on or prior to such date) will constitute an Event of Default under the Master Subordinate Resolution.

Risks Relating to Water Transactions

Metropolitan's primary purpose is to provide a supplemental supply of imported water to its member public agencies. Metropolitan's water supply is described in more detail in Appendix A under the caption

“METROPOLITAN’S WATER SUPPLY.” The demand for supplemental supplies is dependent on water use at the retail consumer level and the amount of locally supplied and conserved water. Consumer demand and locally supplied water vary from year to year, resulting in variability in the volume of Metropolitan’s water transactions. Future reliance on Metropolitan supplies will depend in part on the level of development of local supply projects by Metropolitan’s member public agencies. See Appendix A under the caption “REGIONAL WATER RESOURCES – Local Water Supplies.” Over the last several years supplies and demands have been affected by weather conditions (including, from time to time, periods of wet weather or drought), water use restrictions, economic conditions, and environmental laws, regulations and judicial decisions, as described below. Future water transactions will be subject to variability due to these and other factors.

Weather Conditions. Metropolitan provides a supplemental supply of water to its member agencies, most of whom have other sources of water. Regional water supplies are described in Appendix A under the caption “REGIONAL WATER RESOURCES.” Climatic conditions in Metropolitan’s service area and availability of local supplies affect demands for imported water purchased from Metropolitan. Historically, in years in which above-normal precipitation occurs in the region, retail level water use declines while available regional water supplies increase, resulting in lower demand for imported water purchased from Metropolitan. Metropolitan uses its financial reserves and budgetary tools to manage reductions in revenues due to reduced sales. Metropolitan’s reserve policy currently provides for a minimum unrestricted reserve balance at June 30 of each year that is based on probability studies of the wet periods that affect Metropolitan’s water transactions. See Appendix A under the caption “METROPOLITAN REVENUES – Financial Reserve Policy.”

Water Supply Shortages. Metropolitan’s principal sources of water are the State Water Project and the Colorado River, both of which have been subject to drought conditions during extended periods in prior years that have contributed to lower overall water deliveries to Metropolitan. See also Appendix A under the caption “METROPOLITAN’S WATER SUPPLY – Current Water Conditions and Response Actions.” While Metropolitan plans and manages its supplies to account for normal occurrences of drought conditions, prolonged drought conditions when they occur and court-ordered restrictions in connection with the State Water Project, including but not limited to restrictions under the Federal and California Endangered Species Acts (the “ESAs”), have placed additional limitations on Metropolitan’s ability to obtain and deliver water supplies to its member agencies. See Appendix A under the caption “METROPOLITAN’S WATER SUPPLY – Endangered Species Act and Other Environmental Considerations.” Multi-party drought contingency plans have been developed for the Colorado River which impose additional restrictions on Metropolitan’s access to its Colorado River supplies. See Appendix A under the caption “METROPOLITAN’S WATER SUPPLY – Colorado River Aqueduct – Colorado River Operations: Surplus and Shortage Guidelines.” For additional information regarding the impact of drought conditions on Metropolitan’s water supply, see Appendix A under the caption “METROPOLITAN’S WATER SUPPLY.” Metropolitan may obtain supplies to meet demands during water supply shortages by, among other things, drawing on its stored water supplies and pursuing additional water transfers. See Appendix A under the captions “METROPOLITAN’S WATER SUPPLY – Water Transfer, Storage and Exchange Programs” and “– Storage Capacity and Water in Storage.” If Metropolitan anticipates that supplies will be insufficient to meet demands, Metropolitan may allocate available supplies among its member agencies pursuant to its Water Supply Allocation Plan. See Appendix A under the caption “CONSERVATION AND WATER SHORTAGE MEASURES – Water Supply Allocation Plan.”

Economic Conditions. Water use by customers of retail service providers (which includes some Metropolitan member agencies and agencies that purchase water from them) is affected by economic conditions. Economic recession and its associated impacts, such as job losses, income losses, and housing foreclosures or vacancies, may reduce aggregate levels of water use and Metropolitan’s water transactions. See APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

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

Actions to Manage Risks Relating to Water Transactions. Drought, weather conditions, regional economy and environmental considerations referred to above in recent years have contributed to lower water deliveries at a higher cost to Metropolitan. To address supply shortages due to periods of prolonged drought conditions and/or environmental restrictions, Metropolitan may pursue additional water transfers and investments in capital projects. However, these actions and expenditures may not result in reliable alternate supplies of water at costs that, together with other available supplies and storage, will generate sufficient Net Operating Revenues, which may require Metropolitan to increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS – Rate Covenant.” See also Appendix A under the captions “METROPOLITAN’S WATER SUPPLY” and “CAPITAL INVESTMENT PLAN.” Wet weather and economic conditions in the region can also impact retail water use and reduce demand for imported water purchased from Metropolitan. A reduction in water deliveries to Metropolitan’s member agencies might adversely affect its Net Operating Revenues and Metropolitan may be required to further increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2021A BONDS – Rate Covenant.”

COVID-19 Considerations

The outbreak of COVID-19, a respiratory disease caused by a new highly transmissible strain of coronavirus, has been declared as a pandemic by the World Health Organization. The pandemic is currently affecting many parts of the world, including the United States and the State of California. Commerce, travel, asset values and financial markets have been negatively affected worldwide, and it is not known with any level of certainty when a full re-opening of the economies will be achieved. It is widely expected that the negative effects of the COVID-19 pandemic and its aftermath on global, national and local economies will continue at least for some period of time.

As discussed in Appendix A under the caption “INTRODUCTION—COVID-19 Pandemic,” Metropolitan continues to monitor and respond to the COVID-19 pandemic and ongoing developments surrounding it. Due to the COVID-19 pandemic and measures taken by state and local governments to respond to and control the outbreak, the behavior of businesses and people has been altered in a manner that has significantly slowed economic output throughout the United States, the State and the region. Reduced economic activity and its associated impacts, including as a result of the COVID-19 outbreak itself, such as job losses, income losses, business closures and housing foreclosures or vacancies, and any prolonged recession that may occur, could have a variety of adverse effects on Metropolitan and in the region. Declines in assessed valuations in Metropolitan’s service area and/or increases in property tax delinquencies or non-payment resulting from the economic disruption may negatively affect property tax collections and reduce tax levy receipts. Economic conditions affect aggregate levels of retail water use and may reduce demands in the region and Metropolitan’s water transactions and revenues. A protracted disruption in the manufacturing or construction industry may affect supply chains or delay construction schedules for, or the implementation

of, Metropolitan's capital improvement programs and projects, and may increase the costs of such projects or program or Metropolitan's operations. A sustained deterioration in global stock market values may impact the market value of assets held to fund Metropolitan's pension and other post-employment benefit plans, which could result in future increases in required plan contributions. The extent and period of disruption to or decline in the local and global economies, the effectiveness of and ability to reach wide spread distribution of vaccines and the period of time therefor, the ramifications of future actions that may be taken or required by governmental authorities to contain and respond to the effects of the pandemic, including additional stimulus efforts by the federal government, and the pace at which the economy can re-open and the speed of the economic recovery are uncertain, and no assurances can be given that Metropolitan's operations and finances will not be negatively affected. See Appendix A under the caption "INTRODUCTION-COVID-19 Pandemic." For additional information regarding the impacts of the COVID-19 outbreak on the regional economies, see also Appendix E— "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA."

Earthquakes, Floods, Wildfires and Other Disasters

Southern California is subject to geotechnical and extreme weather conditions which represent potential safety hazards, including expansive soils, wildfires, floods, high winds and areas of potential liquefaction and landslide. Earthquakes, wildfires, floods, high winds and other natural or man-made disasters or accidents, could cause failure of Water System infrastructure or otherwise interrupt operation of the Water System and thereby impair the ability of Metropolitan to generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. The severity and/or frequency of natural disaster occurrences may be exacerbated by the impacts of climate change. The occurrence of such events and calamities could also result in liability claims against Metropolitan. Metropolitan's risk management program includes both self-insured and insured coverages; however, the program does not provide coverage for every conceivable risk of loss. See also Appendix A under the captions "GOVERNANCE AND MANAGEMENT – Risk Management" and "METROPOLITAN'S WATER DELIVERY SYSTEM – Seismic Considerations and Emergency Response Measures."

Climate Change

Climate change has become an important factor in water resources planning. There is scientific consensus that increasing concentrations of greenhouse gases have caused and will continue to cause a rise in temperatures around the world, which will result in a wide range of changes in climate patterns. Studies performed in the scientific community cite evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. Based on these studies, climate change is likely to result in various types of impacts on water resources and assets in the State of California. Rising temperatures are anticipated to result in earlier runoff and cause California's rivers to carry a heavier flow of water. This may trigger floods which would place pressure on California levees. Such conditions, particularly in the Bay-Delta region, may lead to failure of levees and consequently the disruption of water flow through California's various water systems. Earlier runoff may also impact water supply development as less water is available after satisfying environmental obligations to support Bay-Delta exports. Rising temperatures are also anticipated to cause a reduction in the Sierra Nevada snowmelt, a major source of water in California, and result in reduced water deliveries. Metropolitan's Colorado River supplies are also likely to be impacted by rising temperatures, which are expected to result in lower annual runoff volumes in the Colorado River. It is anticipated that reduced spring snowpack and earlier runoff will increase evapotranspiration losses, resulting in less flow into Lake Powell and Lake Mead. Rising temperatures are also generally expected to result in changes in the timing, intensity and annual variability of precipitation levels that could amplify the effects of drought conditions on water supply. Other potential impacts of global warming include increased incidences of wildfires that could degrade water quality; sea level rise and an increase in saltwater intrusion; increased water temperatures with accompanying adverse effects on some fisheries and water quality; and changes in urban and agricultural water demand. Metropolitan has been integrating climate change science

into its long-term water supply planning efforts for a number of years. Metropolitan is a member of the Water Utility Climate Alliance, a group of 12 large water utilities that is focused on collaboratively advancing water utility climate change adaptation. See Appendix A under the caption “METROPOLITAN’S WATER SUPPLY – General.” However, projections of the effects of climate change are complex and the scientific understanding of climate change continues to evolve. While the effects of climate change may be mitigated by Metropolitan’s past and future investment in adaptation strategies, Metropolitan is unable to predict with any certainty how climate change will ultimately affect Metropolitan or water supplies in California or whether Metropolitan will be required to take additional mitigation measures. The financial and operational impacts of climate change effects and any additional adaptive measures that may be required are not yet known and cannot be quantified reliably at this time.

Cybersecurity; Other Safety and Security Risks

Metropolitan, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, “Systems Technology”). Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to Metropolitan’s Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. Cybersecurity breaches could damage Metropolitan’s information and security systems and cause material disruption to its operations. The occurrence of military conflicts and terrorist activities, including cyber terrorism, could also adversely impact the operations of the Water System or the finances of Metropolitan. Cyberattacks are becoming more sophisticated and certain cyber incidents, such as surveillance, may remain undetected for an extended period. United States government agencies have in the past issued warnings indicating that critical infrastructure sectors such as water systems may be specific targets of cybersecurity threats. Attacks directed at critical water sector operations could damage distribution and storage assets, cause operational malfunctions and outages, and result in costly recovery and remediation efforts. Metropolitan has a variety of security measures and safeguards in place. See Appendix A under the captions “GOVERNANCE AND MANAGEMENT – Cybersecurity” and “METROPOLITAN’S WATER DELIVERY SYSTEM – Security Measures.” However, no assurances can be given that any existing or additional safety and security measures will prove adequate in the event that cyberattacks or military conflicts or terrorist activities, including cyber terrorism, are directed against Metropolitan’s Systems Technology or the assets of the Water System. The costs of security measures or of remedying damage from security breaches could be greater than presently anticipated.

Limitations on Remedies

Upon the occurrence and continuance of an Event of Default under the Subordinate Resolutions, the Owners of the Subordinate Bonds (including the 2021A Bonds) have limited remedies and, except for limited circumstances, the Owners of the Subordinate Bonds do not have the right to accelerate the payment of principal or interest on the Subordinate Bonds (including the 2021A Bonds). The remedies available to the Owners of the 2021A Bonds are in many respects dependent upon judicial actions which are themselves often subject to discretion and delay and could prove both expensive and time consuming to obtain. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS – MASTER SUBORDINATE RESOLUTION – Defaults and Remedies.”

In addition, the enforceability of the rights of the Owners of the 2021A Bonds and the obligations of Metropolitan under the Subordinate Resolutions and the 2021A Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws relating to or affecting creditors’ rights generally, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against public entities in the State of California,

including a limitation on enforcement of obligations against funds needed to serve the public welfare and interest.

LITIGATION

No litigation is pending, or, to the best knowledge of Metropolitan, threatened, questioning (a) the existence of Metropolitan, or the title of the officers of Metropolitan to their respective offices, (b) the validity of the 2021A Bonds or the power and authority of Metropolitan to issue the 2021A Bonds, or (c) the authority of Metropolitan to fix, charge and collect rates for the sale of water by Metropolitan as provided in the Subordinate Resolutions.

For a discussion of litigation challenging the allocation of costs to certain water rates, see APPENDIX A—“THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA,” including information under the caption “METROPOLITAN REVENUES – Litigation Challenging Rate Structure.” For a discussion of litigation affecting the water supply of Metropolitan that could adversely affect Operating Revenues, see APPENDIX A—“THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA,” including information under the captions “METROPOLITAN’S WATER SUPPLY – State Water Project,” “– Colorado River Aqueduct,” and “– Endangered Species Act and Other Environmental Considerations,” and “METROPOLITAN EXPENSES – Power Sources and Costs; Related Long-Term Commitments.”

Metropolitan is a party to various other legal proceedings affecting the Water System and is regularly involved in litigation regarding the condemnation of property in accordance with its authorization under the Act to exercise the powers of eminent domain. Metropolitan is also subject to contractor claims arising from disputes with contractors in connection with its ongoing capital investment plan activities which, from time-to-time, result in litigation. Metropolitan does not believe that an adverse ruling in any of these other proceedings could have a material adverse effect upon Operating Revenues of Metropolitan.

TAX MATTERS

Federal Income Taxes

General. The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the 2021A Bonds. The summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), the Treasury Regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. Such authorities may be repealed, revoked, or modified, possibly with retroactive effect, so as to result in United States federal income tax consequences different from those described below. The summary generally addresses 2021A Bonds held as capital assets within the meaning of Section 1221 of the Code and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such 2021A Bonds as a hedge against currency risks or as a position in a “straddle,” “hedge,” “constructive sale transaction” or “conversion transaction” for tax purposes, or persons whose functional currency is not the United States dollar. It also does not deal with holders other than original purchasers that acquire 2021A Bonds at their initial issue price except where otherwise specifically noted. Potential purchasers of the 2021A Bonds should consult their own tax advisors in determining the federal, state, local, foreign and other tax consequences to them of the purchase, holding and disposition of the 2021A Bonds.

Metropolitan has not sought and will not seek any rulings from the Internal Revenue Service with respect to any matter discussed herein. No assurance can be given that the Internal Revenue Service would

not assert, or that a court would not sustain, a position contrary to any of the tax characterizations and tax consequences set forth below.

U.S. Holders. As used herein, the term “U.S. Holder” means a beneficial owner of 2021A Bonds that is (a) an individual citizen or resident of the United States for federal income tax purposes, (b) a corporation, including an entity treated as a corporation for federal income tax purposes, created or organized in or under the laws of the United States or any State thereof (including the District of Columbia), (c) an estate whose income is subject to federal income taxation regardless of its source, or (d) a trust if a court within the United States can exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. Notwithstanding clause (d) of the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to that date that elect to continue to be treated as United States persons also will be U.S. Holders. In addition, if a partnership (or other entity or arrangement treated as a partnership for federal income tax purposes) holds 2021A Bonds, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership (or other entity or arrangement treated as a partnership for federal income tax purposes) that holds 2021A Bonds, the U.S. Holder is urged to consult its own tax advisor regarding the specific tax consequences of the purchase, ownership and dispositions of the 2021A Bonds.

Taxation of Interest Generally. Interest on the 2021A Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code and so will be fully subject to federal income taxation. Purchasers will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such 2021A Bonds. In general, interest paid on the 2021A Bonds and recovery of any accrued original issue discount and market discount will be treated as ordinary income to a bondholder, and after adjustment for the foregoing, principal payments will be treated as a return of capital to the extent of the U.S. Holder’s adjusted tax basis in the 2021A Bonds and capital gain to the extent of any excess received over such basis.

Recognition of Income Generally. Section 451(b) of the Code provides that purchasers using an accrual method of accounting for U.S. federal income tax purposes may be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements of such purchaser. In this regard, Treasury Regulations provide that, with the exception of certain fees, the rule in Section 451(b) will generally not apply to the timing rules for original issue discount and market discount, or to the timing rules for de minimis original issue discount and market discount. Prospective purchasers of the 2021A Bonds should consult their own tax advisors regarding any potential applicability of these rules and their impact on the timing of the recognition of income related to the 2021A Bonds under the Code.

Original Issue Discount. The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of 2021A Bonds issued with original issue discount (“Discount Bonds”). A 2021A Bond will be treated as having been issued with an original issue discount if the excess of its “stated redemption price at maturity” (defined below) over its issue price (defined as the initial offering price to the public at which a substantial amount of the 2021A Bonds of the same maturity have first been sold to the public, excluding bond houses and brokers) equals or exceeds one quarter of one percent of such 2021A Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of an installment obligation, its weighted average maturity).

A 2021A Bond’s “stated redemption price at maturity” is the total of all payments provided by the 2021A Bond that are not payments of “qualified stated interest.” Generally, the term “qualified stated interest” includes stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate or certain floating rates.

In general, the amount of original issue discount includable in income by the initial holder of a Discount Bond is the sum of the “daily portions” of original issue discount with respect to such Discount Bond for each day during the taxable year in which such holder held such 201A Bond. The daily portion of original issue discount on any Discount Bond is determined by allocating to each day in any “accrual period” a ratable portion of the original issue discount allocable to that accrual period.

An accrual period may be of any length, and may vary in length over the term of a Discount Bond, provided that each accrual period is not longer than one year and each scheduled payment of principal or interest occurs at the end of an accrual period. The amount of original issue discount allocable to each accrual period is equal to the difference between (i) the product of the Discount Bond’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The “adjusted issue price” of a Discount Bond at the beginning of any accrual period is the sum of the issue price of the Discount Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Bond that were not qualified stated interest payments. Under these rules, holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Holders utilizing the accrual method of accounting may generally, upon election, include in gross income all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) on a 201A Bond by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount. A holder who purchases a 201A Bond at a price which includes market discount (*i.e.*, at a purchase price that is less than its adjusted issue price in the hands of an original owner) in excess of a prescribed de minimis amount will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such holder will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a 201A Bond as ordinary income to the extent of any remaining accrued market discount or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such holder on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

A holder of a 201A Bond who acquires such 201A Bond at a market discount also may be required to defer, until the maturity date of such 201A Bond or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the holder paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a 201A Bond in excess of the aggregate amount of interest (including original issue discount) includable in such holder’s gross income for the taxable year with respect to such 201A Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the 201A Bond for the days during the taxable year on which the holder held the 201A Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the 201A Bond matures or is disposed of in a taxable transaction. In the

case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondholder elects to include such market discount in income currently as described above.

Bond Premium. A holder of a 2021A Bond who purchases such 2021A Bond at a cost greater than its remaining redemption amount will have amortizable bond premium. If the holder elects to amortize this premium under Section 171 of the Code (which election will apply to all 2021A Bonds held by the holder on the first day of the taxable year to which the election applies and to all 2021A Bonds thereafter acquired by the holder), such a holder must amortize the premium using constant yield principles based on the holder's yield to maturity. Amortizable bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of 2021A Bonds who acquire such 2021A Bonds at a premium should consult with their own tax advisors with respect to federal, state and local tax consequences of owning such 2021A Bonds.

Surtax on Unearned Income. Section 1411 of the Code generally imposes a tax of 3.8% on the "net investment income" of certain individuals, trusts and estates. Among other items, net investment income generally includes gross income from interest and net gain attributable to the disposition of certain property, less certain deductions. U.S. Holders should consult their own tax advisors regarding the possible implications of this provision in their particular circumstances.

Sale or Redemption of 2021A Bonds. A bondholder's adjusted tax basis for a 2021A Bond is the price such holder pays for the 2021A Bond plus the amount of original issue discount and market discount previously included in income and reduced on account of any payments received on such 2021A Bond other than "qualified stated interest" and any amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a 2021A Bond, measured by the difference between the amount realized and the bondholder's tax basis as so adjusted, will generally give rise to capital gain or loss if the 2021A Bond is held as a capital asset (except in the case of 2021A Bonds acquired at a market discount, in which case a portion of the gain will be characterized as interest and therefore ordinary income).

If the terms of a 2021A Bond are materially modified, in certain circumstances, a new debt obligation would be deemed "reissued", or created and exchanged for the prior obligation in a taxable transaction. Among the modifications which may be treated as material are those related to the redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. In addition, the defeasance of a 2021A Bond under the defeasance provisions of the Subordinate Resolutions could result in a deemed sale or exchange of such 2021A Bond.

EACH POTENTIAL HOLDER OF 2021A BONDS SHOULD CONSULT ITS OWN TAX ADVISOR CONCERNING (1) THE TREATMENT OF GAIN OR LOSS ON SALE, REDEMPTION OR DEFEASANCE OF THE 2021A BONDS, AND (2) THE CIRCUMSTANCES IN WHICH 2021A BONDS WOULD BE DEEMED REISSUED AND THE LIKELY EFFECTS, IF ANY, OF SUCH REISSUANCE.

Non-U.S. Holders. The following is a general discussion of certain United States federal income tax consequences resulting from the beneficial ownership of 2021A Bonds by a person other than a U.S. Holder, a former United States citizen or resident, or a partnership or entity treated as a partnership for United States federal income tax purposes (a "Non-U.S. Holder").

Subject to the discussion of backup withholding and the Foreign Account Tax Compliance Act ("FATCA"), payments of principal by Metropolitan or any of its agents (acting in its capacity as agent) to any Non-U.S. Holder will not be subject to federal withholding tax. In the case of payments of interest to any Non-U.S. Holder, however, federal withholding tax will apply unless the Non-U.S. Holder (1) does not own (actually or constructively) 10 percent or more of the voting equity interests of Metropolitan, (2) is not a controlled foreign corporation for United States tax purposes that is related to Metropolitan (directly or

indirectly) through stock ownership, and (3) is not a bank receiving interest in the manner described in Section 881(c)(3)(A) of the Code. In addition, either (1) the Non-U.S. Holder must certify on the applicable IRS Form W-8 (series) (or successor form) to Metropolitan, its agents or paying agents or a broker under penalties of perjury that it is not a U.S. person and must provide its name and address, or (2) a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business and that also holds the 2021A Bonds must certify to Metropolitan or its agent under penalties of perjury that such statement on the applicable IRS Form W-8 (series) (or successor form) has been received from the Non-U.S. Holder by it or by another financial institution and must furnish the interest payor with a copy.

Interest payments may also be exempt from federal withholding tax depending on the terms of an existing federal income tax treaty, if any, in force between the U.S. and the resident country of the Non-U.S. Holder. The U.S. has entered into an income tax treaty with a limited number of countries. In addition, the terms of each treaty differ in their treatment of interest and original issue discount payments. Non-U.S. Holders are urged to consult their own tax advisor regarding the specific tax consequences of the receipt of interest payments, including original issue discount. A Non-U.S. Holder that does not qualify for exemption from withholding as described above must provide Metropolitan or its agent with documentation as to his, her, or its identity to avoid the U.S. backup withholding tax on the amount allocable to a Non-U.S. Holder. The documentation may require that the Non-U.S. Holder provide a U.S. tax identification number.

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on a 2021A Bond held by such holder is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from the withholding tax discussed above (provided that such holder timely furnishes the required certification to claim such exemption), may be subject to United States federal income tax on such interest in the same manner as if it were a U.S. Holder. In addition, if the Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (subject to a reduced rate under an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, interest on a 2021A Bond will be included in the earnings and profits of the holder if the interest is effectively connected with the conduct by the holder of a trade or business in the United States. Such a holder must provide the payor with a properly executed IRS Form W-8ECI (or successor form) to claim an exemption from United States federal withholding tax.

Generally, any capital gain realized on the sale, exchange, retirement or other disposition of a 2021A Bond by a Non-U.S. Holder will not be subject to United States federal income or withholding taxes if (1) the gain is not effectively connected with a United States trade or business of the Non-U.S. Holder, and (2) in the case of an individual, the Non-U.S. Holder is not present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition, and certain other conditions are met.

For newly issued or reissued obligations, such as the 2021A Bonds, FATCA imposes U.S. withholding tax on interest payments and, for dispositions after December 31, 2018, gross proceeds of the sale of the 2021A Bonds paid to certain foreign financial institutions (which is broadly defined for this purpose to generally include non-U.S. investment funds) and certain other non-U.S. entities if certain disclosure and due diligence requirements related to U.S. accounts or ownership are not satisfied, unless an exemption applies. An intergovernmental agreement between the United States and an applicable non-U.S. country may modify these requirements. In any event, bondholders or beneficial owners of the 2021A Bonds shall have no recourse against Metropolitan, nor will Metropolitan be obligated to pay any additional amounts to "gross up" payments to such persons, as a result of any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or government charges with respect to payments in respect of the 2021A Bonds. However, it should be noted that on December 13, 2018, the IRS issued Proposed Treasury Regulation Section 1.1473-1(a)(1) which proposes to remove gross proceeds from the definition of "withholdable payment" for this purpose.

Non-U.S. Holders should consult their own tax advisors with respect to the possible applicability of federal withholding and other taxes upon income realized in respect of the 2021A Bonds.

Information Reporting and Backup Withholding. For each calendar year in which the 2021A Bonds are outstanding, Metropolitan, its agents or paying agents or a broker is required to provide the IRS with certain information, including a holder's name, address and taxpayer identification number (either the holder's Social Security number or its employer identification number, as the case may be), the aggregate amount of principal and interest paid to that holder during the calendar year and the amount of tax withheld, if any. This obligation, however, does not apply with respect to certain U.S. Holders, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts and annuities.

If a U.S. Holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law or under-reports its tax liability, Metropolitan, its agents or paying agents or a broker may be required to make "backup" withholding of tax on each payment of interest or principal on the 2021A Bonds. This backup withholding is not an additional tax and may be credited against the U.S. Holder's federal income tax liability, provided that the U.S. Holder furnishes the required information to the IRS.

Under current Treasury Regulations, backup withholding and information reporting will not apply to payments of interest made by Metropolitan, its agents (in their capacity as such) or paying agents or a broker to a Non-U.S. Holder if such holder has provided the required certification that it is not a U.S. person (as set forth in the second paragraph under "Non-U.S. Holders" above), or has otherwise established an exemption (provided that neither Metropolitan nor its agent has actual knowledge that the holder is a U.S. person or that the conditions of an exemption are not in fact satisfied).

Payments of the proceeds from the sale of a 2021A Bond to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) may apply to those payments if the broker is one of the following: (i) a U.S. person; (ii) a controlled foreign corporation for U.S. tax purposes; (iii) a foreign person 50-percent or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment was effectively connected with a United States trade or business; or (iv) a foreign partnership with certain connections to the United States.

Payment of the proceeds from a sale of a 2021A Bond to or through the United States office of a broker is subject to information reporting and backup withholding unless the holder or beneficial owner certifies as to its taxpayer identification number or otherwise establishes an exemption from information reporting and backup withholding.

The preceding federal income tax discussion is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their tax advisors with respect to the tax consequences to them of the purchase, ownership and disposition of the 2021A Bonds, including the tax consequences under federal, state, local, foreign and other tax laws and the possible effects of changes in those tax laws.

State Taxes

Bond Counsel is also of the opinion that interest on the 2021A Bonds is exempt from personal income taxes of the State of California under present State law. Bond Counsel expresses no opinion as to other state or local tax consequences arising with respect to the 2021A Bonds nor as to the taxability of the 2021A Bonds or the income therefrom under the laws of any state other than California.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an impact on the inclusion in gross income of interest on the 2021A Bonds for federal or state income tax purposes, and thus on the value or marketability of the 2021A Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or otherwise. It is not possible to predict whether any such legislative or administrative actions or court decisions will occur or have an adverse impact on the federal or state income tax treatment of holders of the 2021A Bonds. Prospective purchasers of the 2021A Bonds should consult their own tax advisors regarding the impact of any change in law or proposed change in law on the 2021A Bonds.

IN ALL EVENTS, ALL INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE 2021A BONDS.

CONSIDERATIONS FOR ERISA AND OTHER U.S. BENEFIT PLAN INVESTORS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to Title I of ERISA (“ERISA Plans”). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under Section 501(a) of the Code, other than governmental and church plans as defined herein (“Qualified Retirement Plans”), and on Individual Retirement Accounts (“IRAs”) described in Section 408(b) of the Code (collectively, “Tax-Favored Plans”). Certain employee benefit plans such as governmental plans (as defined in Section 3(32) of ERISA) (“Governmental Plans”), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) (“Church Plans”), are not subject to ERISA requirements. Additionally, such Governmental and Church Plans are not subject to the requirements of Section 4975 of the Code but may be subject to applicable federal, state or local law (“Similar Laws”) which is, to a material extent, similar to the foregoing provisions of ERISA or the Code. Accordingly, assets of such plans may be invested in the 2021A Bonds without regard to the ERISA and Code considerations described below, subject to the provisions of Similar Laws.

In addition to the imposition of general fiduciary obligations, including those of investment prudence and diversification and the requirement that a plan’s investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, “Benefit Plans”) and persons who have certain specified relationships to the Benefit Plans (“Parties In Interest” or “Disqualified Persons”), unless a statutory or administrative exemption is available. The definitions of “Party in Interest” and “Disqualified Person” are expansive. While other entities may be encompassed by these definitions, they include, most notably: (1) fiduciary with respect to a plan; (2) a person providing services to a plan; (3) an employer or employee organization any of whose employees or members are covered by the plan; and (4) the owner of an IRA. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available. Without an exemption an IRA owner may disqualify his or her IRA.

Certain transactions involving the purchase, holding or transfer of the 2021A Bonds might be deemed to constitute prohibited transactions under ERISA and Section 4975 of the Code if assets of Metropolitan were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States

Department of Labor (the “Plan Assets Regulation”), the assets of Metropolitan would be treated as plan assets of a Benefit Plan for the purposes of ERISA and Section 4975 only of the Code if the Benefit Plan acquires an “equity interest” in Metropolitan and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is little guidance on this matter, it appears that the 2021A Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation. This determination is based upon the traditional debt features of the 2021A Bonds, including the reasonable expectation of purchasers of 2021A Bonds that the 2021A Bonds will be repaid when due, traditional default remedies, as well as the absence of conversion rights, warrants and other typical equity features.

However, without regard to whether the 2021A Bonds are treated as an equity interest for such purposes, though, the acquisition or holding of 2021A Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if Metropolitan or the Paying Agent, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan.

Most notably, ERISA and the Code generally prohibit the lending of money or other extension of credit between an ERISA Plan or Tax-Favored Plan and a Party in Interest or a Disqualified Person, and the acquisition of any of the 2021A Bonds by a Benefit Plan would involve the lending of money or extension of credit by the Benefit Plan. In such a case, however, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a 2021A Bond. Included among these exemptions are: Prohibited Transaction Class Exemption (“PTCE”) 96-23, regarding transactions effected by certain “in-house asset managers”; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by “insurance company general accounts”; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by “qualified professional asset managers.” Further, the statutory exemption in Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provides for an exemption for transactions involving “adequate consideration” with persons who are Parties in Interest or Disqualified Persons solely by reason of their (or their affiliate’s) status as a service provider to the Benefit Plan involved and none of whom is a fiduciary with respect to the Benefit Plan assets involved (or an affiliate of such a fiduciary). There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the 2021A Bonds, or that, if available, the exemption would cover all possible prohibited transactions.

By acquiring a 2021A Bond (or interest therein), each purchaser and transferee (and if the purchaser or transferee is a plan, its fiduciary) is deemed to represent and warrant that either (i) it is not acquiring the 2021A Bond (or interest therein) with the assets of a Benefit Plan, Governmental plan or Church plan; or (ii) the acquisition and holding of the 2021A Bond (or interest therein) will not give rise to a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or Similar Laws. A purchaser or transferee who acquires Bonds with assets of a Benefit Plan represents that such purchaser or transferee has considered the fiduciary requirements of ERISA, the Code or Similar Laws and has consulted with counsel with regard to the purchase or transfer.

Because Metropolitan, the Paying Agent, the Underwriter, the Remarketing Agent or any of their respective affiliates may receive certain benefits in connection with the sale of the 2021A Bond, the purchase of the 2021A Bonds using plan assets of a Benefit Plan over which any of such parties has investment authority or provides investment advice for a direct or indirect fee may be deemed to be a violation of the prohibited transaction rules of ERISA or Section 4975 of the Code or Similar Laws for which no exemption may be available. Accordingly, any investor considering a purchase of 2021A Bonds using plan assets of a Benefit Plan should consult with its counsel if Metropolitan, the Paying Agent, the Underwriter, the Remarketing Agent or any of their respective affiliates has investment authority or provides investment

advice for a direct or indirect fee with respect to such assets or is an employer maintaining or contributing to the Benefit Plan.

Any ERISA Plan fiduciary considering whether to purchase the 2021A Bonds on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Code and the applicability of Similar Laws.

UNDERWRITING

The 2021A Bonds are being purchased by BofA Securities, Inc. (the “Underwriter”), pursuant to and subject to the conditions to be set forth in the Bond Purchase Contract between Metropolitan and the Underwriter (the “Bond Purchase Contract”). Subject to the terms of the Bond Purchase Contract, the Underwriter will purchase the 2021A Bonds at a purchase price of \$222,129,410.00 (being the \$222,160,000.00 principal amount of the 2021A Bonds, less an Underwriter’s discount of \$30,590.00). Under the Bond Purchase Contract, the Underwriter is obligated to purchase all of the 2021A Bonds if it purchases any 2021A Bonds.

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

BofA Securities, Inc. has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the 2021A Bonds.

CERTAIN RELATIONSHIPS

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

The Underwriter and its affiliates comprise a full service securities firm and may engage in various activities, including securities trading, investment banking and financial advisory services, investment management, principal investment, hedging, financing and brokerage activities and financial planning. The Underwriter and its affiliates, in the ordinary course of business, may engage in such activities with Metropolitan or any other party that may be involved in the 2021A Bond transaction, and receive customary fees and expenses. Furthermore, in the ordinary course of business, the Underwriter or an affiliate may, for its own account or the account of third-parties, have investment, trading, commercial banking and other relationships that may relate to the securities and/or other instruments of Metropolitan or any other party that may be involved in the 2021A Bond transaction.

Bank of America, N.A., an affiliate of the Underwriter, is the Liquidity Provider for the 2021A Bonds. See “THE LIQUIDITY PROVIDER.” In addition, the 2016A Subordinate Bonds and 2019A Subordinate Short-Term Refunding Notes that are being refunded and redeemed on the date of delivery of the 2021A Bonds with proceeds of the 2021A Bonds were issued in direct placement transactions with Bank of America, N.A., who is the owner of the outstanding 2016A Subordinate Bonds and 2019A Subordinate Short-Term Refunding Notes. As a result, Bank of America, N.A., will receive a significant portion of the proceeds from the issuance of the 2021A Bonds. In addition, BofA Securities, Inc., the Underwriter, is serving as remarketing agent for the 2021A Bonds. See “DESCRIPTION OF THE 2021A BONDS – Remarketing Agent.”

MUNICIPAL ADVISOR

Metropolitan has retained Backstrom McCarley Berry & Co., LLC, San Francisco, California, as municipal advisor (the “Municipal Advisor”) in connection with the issuance of the 2021A Bonds. The Municipal Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to Metropolitan, with respect to accuracy and completeness of disclosure of such information. The Municipal Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement. Certain fees of the Municipal Advisor are contingent upon the issuance and delivery of the 2021A Bonds.

LEGAL MATTERS

Nixon Peabody LLP, Bond Counsel to Metropolitan, will render their opinions with respect to the 2021A Bonds, substantially in the form set forth in APPENDIX G – “FORM OF BOND COUNSEL OPINION.” Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for Metropolitan by its General Counsel, for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and for the Liquidity Provider by its counsel, Chapman and Cutler LLP. Stradling Yocca Carlson & Rauth, a Professional Corporation, is acting as Disclosure Counsel to Metropolitan in connection with the issuance of the 2021A Bonds. Bond Counsel and Disclosure Counsel will receive compensation that is contingent upon the issuance and delivery of the 2021A Bonds.

RATINGS

S&P Global Ratings (“S&P”) and Fitch Ratings, Inc. (“Fitch”) have assigned the 2021A Bonds their long-term ratings of “AA+” and “AA+,” respectively, based on Metropolitan’s underlying long-term bond ratings. S&P and Fitch have assigned their short-term ratings of “A-1” and “F1+,” respectively, to the 2021A Bonds, based on the issuance by the Liquidity Provider of the Liquidity Facility for the 2021A Bonds. S&P’s rating outlook with respect to the 2021A Bonds is “stable.” Fitch’s rating outlook is “stable.” Such credit ratings reflect only the views of the applicable organizations and any desired explanation of the significance of any such credit rating should be obtained from the rating agency furnishing the same, at the following addresses: S&P Global Ratings, 55 Water Street, New York, New York 10041; and Fitch Ratings, 33 Whitehall Street, New York, New York 10004. A securities rating is not a recommendation to buy, sell or hold securities. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating or any outlook ascribed thereto will continue for any given period of time or that any such credit rating will not be revised or withdrawn entirely if, in the judgment of the rating agency furnishing it, circumstances so warrant. Any downward revision or withdrawal of any such credit rating could have an adverse effect on the market price of the 2021A Bonds.

CONTINUING DISCLOSURE

Metropolitan has agreed to execute a continuing disclosure undertaking (the “Continuing Disclosure Undertaking”), which provides for disclosure obligations on the part of Metropolitan for so long as the 2021A Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan will covenant for the benefit of Owners and Beneficial Owners of the 2021A Bonds to provide certain financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notice Events”) in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. The Annual Reports and the notices of Notice Events will be filed with the EMMA System.

These covenants will be made to assist the Underwriter in complying with the Rule. See APPENDIX H—“FORM OF CONTINUING DISCLOSURE UNDERTAKING.”

Metropolitan has not failed in the previous five years to comply in any material respect with any previous undertaking to provide annual reports or notices of certain events in accordance with the Rule.

MISCELLANEOUS

The terms of the 2021A Bonds are set forth in the Subordinate Resolutions and the Paying Agent Agreement. Copies of such documents may be obtained from the office of the Assistant General Manager/Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012, telephone (213) 217-7121. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Official Statement may be directed to the Assistant General Manager/Chief Financial Officer.

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

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

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

By: /s/ Jeffrey Kightlinger
General Manager

APPENDIX A

The Metropolitan Water District of Southern California



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INTRODUCTION

This Appendix A provides general information regarding The Metropolitan Water District of Southern California (“Metropolitan”), including information regarding Metropolitan’s operations and finances. Certain statements included or incorporated by reference in this Appendix A constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “project,” “expect,” “estimate,” “budget” or other similar words. Such statements are based on facts and assumptions set forth in Metropolitan’s current planning documents including, without limitation, its most recent biennial budget. The achievement of results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual results may differ from Metropolitan’s forecasts. Metropolitan is not obligated to issue any updates or revisions to the forward-looking statements in any event.

Metropolitan maintains a website that may include information on programs or projects described in this Appendix A; however, none of the information on Metropolitan’s website is incorporated by reference or intended to assist investors in making an investment decision or to provide any additional information with respect to the information included in this Appendix A. The information presented on Metropolitan’s website is not part of the Official Statement and should not be relied upon in making investment decisions.

Formation and Purpose

Metropolitan is a metropolitan water district created in 1928 under authority of the Metropolitan Water District Act (California Statutes 1927, Chapter 429, as reenacted in 1969 as Chapter 209, as amended (herein referred to as the “Act”)). The Act authorizes Metropolitan to: levy property taxes within its service area; establish water rates; impose charges for water standby and service availability; incur general obligation bonded indebtedness and issue revenue bonds, notes and short-term revenue certificates; execute contracts; and exercise the power of eminent domain for the purpose of acquiring property. In addition, Metropolitan’s Board of Directors (the “Board”) is authorized to establish terms and conditions under which additional areas may be annexed to Metropolitan’s service area.

Metropolitan’s primary purpose is to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member public agencies. If additional water is available, such water may be sold for other beneficial uses. Metropolitan serves its member agencies as a water wholesaler and has no retail customers.

The mission of Metropolitan, as promulgated by the Board, is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.

Metropolitan’s charges for water transactions and availability are fixed by its Board and are not subject to regulation or approval by the California Public Utilities Commission or any other state or federal agency. Metropolitan imports water from two principal sources: northern California via the Edmund G. Brown California Aqueduct (the “California Aqueduct”) of the State Water Project owned by the State of California (the “State” or “California”) and the Colorado River via the Colorado River Aqueduct (“CRA”) owned by Metropolitan.

Member Agencies

Metropolitan is comprised of 26-member public agencies, including 14 cities, 11 municipal water districts, and one county water authority, which collectively serve the residents and businesses of more than 300 cities and numerous unincorporated communities. Member agencies request water from Metropolitan at

various delivery points within Metropolitan's system and pay for such water at uniform rates established by the Board for each class of water service. Metropolitan's water is a supplemental supply for its member agencies, most of whom have local supplies and other sources of water. See "METROPOLITAN REVENUES–Principal Customers" in this Appendix A for a listing of the ten-member agencies representing the highest level of water transactions and revenues of Metropolitan during the fiscal year ended June 30, 2020. No member is required to purchase water from Metropolitan, but all member agencies are required to pay readiness-to-serve charges whether or not they purchase water from Metropolitan. See "METROPOLITAN REVENUES–Rate Structure," "–Member Agency Purchase Orders" and "–Other Charges" in this Appendix A. Local supplies include water produced by local agencies from various sources including but not limited to groundwater, surface water, locally-owned imported supplies, recycled water, and seawater desalination (see "REGIONAL WATER RESOURCES" in this Appendix A). Metropolitan's member agencies may develop additional sources of water and Metropolitan provides support for several programs to develop these local resources. See also "REGIONAL WATER RESOURCES–Local Water Supplies."

The following table lists the 26-member agencies of Metropolitan.

Municipal Water Districts	Cities	County Water Authority		
Calleguas	Las Virgenes	Anaheim	Los Angeles	San Diego ⁽¹⁾
Central Basin	Orange County	Beverly Hills	Pasadena	
Eastern	Three Valleys	Burbank	San Fernando	
Foothill	West Basin	Compton	San Marino	
Inland Empire Utilities Agency		Fullerton	Santa Ana	
Upper San Gabriel Valley		Glendale	Santa Monica	
Western of Riverside County		Long Beach	Torrance	

⁽¹⁾ The San Diego County Water Authority, currently Metropolitan's largest customer based on water transactions, is a plaintiff in litigation challenging the allocation of costs to certain rates adopted by the Board and asserting other claims. See "METROPOLITAN REVENUES–Litigation Challenging Rate Structure" in this Appendix A.

Service Area

Metropolitan's service area comprises approximately 5,200 square miles and includes all or portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. When Metropolitan began delivering water in 1941, its service area consisted of approximately 625 square miles. Its service area has increased by 4,575 square miles since that time. The expansion was primarily the result of annexation of the service areas of additional member agencies.

Metropolitan estimates that approximately 19 million people lived in Metropolitan's service area in 2020, based on official estimates from the California Department of Finance and on population distribution estimates from the Southern California Association of Governments ("SCAG") and the San Diego Association of Governments ("SANDAG"). Recent population projections prepared by SCAG in 2020 and by SANDAG in 2019, which will be used as base data for Metropolitan's 2020 Integrated Water Resources Plan, show expected population growth of approximately 17 percent in Metropolitan's service area between 2010 and 2035, which is slightly lower than the approximately 18 percent population growth rate projected by SCAG in 2012 and SANDAG in 2013 (which projections were used as base data for Metropolitan's prior 2015 Integrated Water Resources Plan update). The economy of Metropolitan's service area is exceptionally diverse. In 2019, the economy of the six counties which contain Metropolitan's service area had a gross domestic product larger than all but twelve nations of the world. Metropolitan has historically provided between 40 and 60 percent of the water used annually within its service area. For additional economic and demographic information concerning the six-county area containing Metropolitan's service area, see

Appendix E—“SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

The climate in Metropolitan’s service area ranges from moderate temperatures throughout the year in the coastal areas to hot and dry summers in the inland areas. Since 2000, annual rainfall has ranged from approximately 4 to 27 inches along the coastal area, 6 to 38 inches in foothill areas, and 5 to 20 inches in inland areas.

COVID-19 Pandemic

The late 2019 outbreak of the new highly transmissible strain of coronavirus and the disease it causes (known as COVID-19), has spread across the globe. The World Health Organization (the “WHO”) declared the outbreak of COVID-19 to be a pandemic, and states of emergency were declared in the United States (the “U.S.”), the State of California, and numerous counties throughout the State, including in the six counties all or portions of which comprise the service area of Metropolitan. Metropolitan’s General Manager declared a state of emergency at Metropolitan in March 2020. The COVID-19 pandemic and the governmental actions to respond to and control the outbreak materially altered the behavior of people and disrupted business activity, resulting in a significant contraction of the national, state and local economies. Employment data released since the imposition of governmental restrictions on activities showed a dramatic increase in unemployment rates and, while some recovery of jobs has occurred, unemployment rates remain significantly above pre-pandemic levels. In addition, domestic and international stock markets experienced declines in market value following the onset of the outbreak. Although rebounds in the global financial markets have since occurred, price volatility remains.

With widespread vaccination currently underway worldwide, some of the domestic governmental-imposed “stay-at-home” orders and restrictions on operations of schools and businesses implemented to respond to and control the outbreak have been eased. The Governor of California has announced most statewide COVID-19 restrictions may be lifted by June 15, 2021, contingent on the status of certain public health metrics to be assessed at that time. Restrictions, however, may be re-imposed in various jurisdictions from time to time as local conditions warrant. It is not known with any level of certainty when a full re-opening of the economy will be achieved and sustained. The negative effects of the COVID-19 pandemic and its aftermath on global, national and local economies is widely expected to continue at least for the foreseeable future.

Metropolitan is monitoring and responding to the COVID-19 pandemic and ongoing developments surrounding it. Metropolitan has taken, and is taking, a number of steps to maintain continuity of its critical and essential business functions and avoid widespread impacts to its workforce from the COVID-19 outbreak. Metropolitan’s water system is deemed federally designated critical infrastructure, entitled to exemptions under governmental “stay-at-home” orders as needed to maintain continuity of operations. Metropolitan personnel necessary to the operation and delivery of water supplies remain on-site, with staffing strategies being utilized to protect the health of its employees and promote “social distancing.” Enhanced facility cleaning and disinfection practices have been put in place to promote a safe and healthful workplace for these employees. Telecommuting arrangements or paid administrative leave is being implemented for employees performing other functions, and non-essential business travel has been limited.

COVID-19 is not believed to present a threat to the safety of Metropolitan’s treated water supplies. Metropolitan has taken steps to ensure it has the necessary backup equipment, supplies and treatment chemicals in the event of disruptions to the procurement supply chain. To date, Metropolitan’s ability to treat and deliver water has not been impaired. Metropolitan has experienced an increase in certain costs, primarily expenses for personal protective equipment, enhanced cleaning procedures, technology costs to accommodate teleworking and other related expenditures. In aggregate, these increased expenses have been modest and are generally offset by reductions in travel and other office expenses. While Metropolitan initially paused certain construction work on non-essential capital projects at the onset of the COVID-19

outbreak, such activity has resumed and Metropolitan continues to advance a variety of infrastructure and system reliability projects. See also “CAPITAL INVESTMENT PLAN” in this Appendix A.

Metropolitan also proactively responded to the anticipated effects of the ongoing COVID-19 pandemic likely to be experienced by its member agencies. Following the onset of the pandemic and response actions, many water service providers serving residential, commercial and industrial end-use customers (referred to herein as “retail water service providers”), which includes some Metropolitan member agencies and agencies that purchase water from them, implemented measures to assist their customers facing financial hardship as a result of the COVID-19 outbreak. In addition, as a measure to assure access to water service for citizens likely to be adversely impacted financially due to the economic effects of the ongoing COVID-19 pandemic, on April 2, 2020, Governor Newsom issued an executive order which, among other things, ordered the restoration of water service to residential customers in occupied residences whose service was discontinued for nonpayment during the state of emergency, and suspended the authority of retail water service providers to discontinue water service to residential and qualifying small business customers for non-payment for the duration of the state of emergency. These measures were expected to result in more late or non-payment of utility bills than normal and forecasted for retail water service providers generally, with the potential to create financial stress on retail water service providers, including some Metropolitan member agencies.

In recognition of the changed circumstances and the uncertainties created by the ongoing COVID-19 outbreak, in the weeks following the declaration of a pandemic by the WHO in March 2020, Metropolitan reviewed its preliminary biennial budget initially presented to the Board in February 2020, and modified certain assumptions previously made in the proposed budget. The biennial budget for fiscal years 2020-21 and 2021-22, and water rates and charges for calendar years 2021 and 2022 adopted by the Board on April 14, 2020, reflected these adjustments, which included (i) a reduction in the overall rate increases for calendar years 2021 and 2022 from those previously proposed; (ii) a reduction in capital expenditures for fiscal year 2020-21 in recognition of likely delays in scheduling of construction work as a result of COVID-19; (iii) a reduction in the internal funding objective for the funding of capital program expenditures from current revenues for fiscal year 2020-21; and (iv) to review the adopted budget and rates no later than September 2020 to consider further impacts resulting from the COVID-19 crisis. See “METROPOLITAN’S REVENUES–Water Rates” and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A.

As contemplated by the Board’s April 14, 2020 action, Metropolitan reviewed the impacts of the COVID-19 pandemic on Metropolitan’s biennial budget for fiscal years 2020-21 and 2021-22, and water rates and charges for calendar years 2021 and 2022 at its September 15, 2020 Board meeting. The Board determined to maintain the previously adopted rates and charges for calendar years 2021 and 2022 and approved certain cost containment measures, estimated to reduce Metropolitan expenditures by approximately \$10.7 million in fiscal year 2020-21, and by approximately \$1.0 million in fiscal year 2021-22. The Board also directed staff to develop a payment deferral program for member agencies that record and report significant customer payment delinquencies and likewise grant deferrals to their customers; evaluate potential new revenue-generating programs; and place a moratorium on non-emergency unbudgeted spending.

At its December 8, 2020 meeting, Metropolitan’s Board adopted the COVID-19 Member Agency Payment Deferment Program. Under the approved program, Metropolitan will provide up to a six-month deferral of a portion of a requesting member agency’s payment obligations owed to Metropolitan for water transactions equal to the percentage of the member agency’s own customers’ delinquency rates, but not to exceed 10 percent of each monthly obligation. Additionally, under the program, late payments, penalties, and interest will be waived to the deferred amount over a period of up to 12 months. The program is available to all member agencies that meet Board-approved eligibility criteria and will apply to invoices for water transactions occurring only from January 1, 2021 to June 30, 2021. All amounts deferred under the program

will be due and payable no later than December 29, 2021. To the extent that member agencies participate in the program, the COVID-19 Member Agency Payment Deferment Program is expected to result in a shift of some revenue collections from fiscal year 2020-21 to fiscal year 2021-22. As of May 1, 2021, no member agencies have applied for the COVID-19 Member Agency Deferment Program.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (the “ARP Act”), a \$1.9 trillion economic stimulus package designed to help the United States’ economy recover from the adverse impacts of the COVID-19 pandemic. The ARP Act includes approximately \$350 billion in aid to state and local governments, consisting of both direct funding from the United States Department of Treasury and program moneys that will flow from other federal agencies. Half of the aid to state and local governments will be distributed in spring 2021, with the other half following in 2022. Although Metropolitan may seek ARP Act funds from the State, it is unclear at this time how the State will allocate such funds. The State Treasury is expected to release future guidance in the coming weeks. Metropolitan may also receive refundable employee tax credits for paid sick and family medical leaves provided due to the COVID-19 pandemic.

The COVID-19 outbreak is ongoing and developments will continue. The ultimate degree of impact to Metropolitan’s finances and operations is difficult to predict due to the evolving nature of the COVID-19 pandemic, including uncertainties relating thereto. The extent of the fiscal impacts on Metropolitan will depend on, among other things, (i) the duration of the stay-at-home orders and the extent to which the disruption to or decline in the local and global economies and financial markets persists; (ii) the effectiveness of and ability to reach wide spread distribution of vaccines and the period of time therefor; (iii) the degree to which business closures, continued increased unemployment, housing foreclosures and/or other economic consequences occur that could reduce water demands in the region and, in turn, Metropolitan’s water transactions, or that could negatively affect future property values in Metropolitan’s service area and/or Metropolitan’s property tax levy receipts which singularly or collectively could reduce Metropolitan’s projected revenues; (iv) the ramifications of future actions that may be taken or required by governmental authorities to respond to the effects of the pandemic, including additional stimulus efforts by the federal government; (v) the pace at which the economy can re-open; and (vi) the speed of the ensuing economic recovery. If the COVID-19 pandemic and/or the economic recovery is prolonged, the likelihood or magnitude of potential adverse impacts to Metropolitan’s finances or operations from the factors discussed herein or from other factors, could be increased. To date, Metropolitan does not believe the impacts of the COVID-19 pandemic will have a material adverse impact on its ability to pay debt service on its bonds or other debt obligations.

GOVERNANCE AND MANAGEMENT

Board of Directors

Metropolitan is governed by a 38-member Board of Directors, made up of representatives from all of Metropolitan’s member agencies. Each member public agency is entitled to have at least one representative on the Board, plus an additional representative for each full five percent of the total assessed valuation of property in Metropolitan’s service area that is within the member public agency. Changes in relative assessed valuation do not terminate any director’s term. In 2019, California Assembly Bill 1220 (Garcia) amended the Act to provide that “A member public agency shall not have fewer than the number of representatives the member public agency had as of January 1, 2019.” Accordingly, the Board may, from time to time, have more than 38 directors.

The Board includes business, professional and civic leaders. Directors are appointed by member agencies in accordance with those agencies’ processes and the Act. They serve on the Board without compensation from Metropolitan. Voting is based on assessed valuation, with each member agency being entitled to cast one vote for each \$10 million or major fractional part of \$10 million of assessed valuation of property within the member agency, as shown by the assessment records of the county in which the member

agency is located. The Board administers its policies through the Metropolitan Water District Administrative Code (the “Administrative Code”), which was adopted by the Board in 1977. The Administrative Code is periodically amended to reflect new policies or changes to existing policies that occur from time to time.

Management

Metropolitan’s day-to-day management is under the direction of its General Manager, who serves at the pleasure of the Board, as do Metropolitan’s General Counsel, General Auditor and Ethics Officer. Following is a biographical summary of Metropolitan’s principal executive officers.

Jeffrey Kightlinger, General Manager – Mr. Kightlinger was appointed as General Manager in February 2006, leaving the position of General Counsel, which he had held since February 2002. Before becoming General Counsel, Mr. Kightlinger was a Deputy General Counsel and then Assistant General Counsel, representing Metropolitan primarily on Colorado River matters, environmental issues, water rights and a number of Metropolitan’s water transfer and storage programs. Prior to joining Metropolitan in 1995, Mr. Kightlinger worked in private practice representing numerous public agencies including municipalities, redevelopment agencies and special districts. Mr. Kightlinger earned his bachelor’s degree in history from the University of California, Berkeley, and his law degree from Santa Clara University.

At the March 2020 Board meeting, Mr. Kightlinger announced his plans to step down as General Manager. Mr. Kightlinger will continue as General Manager until a successor assumes the position of General Manager of Metropolitan. On June 8, 2021, the Board approved the terms of the employment contract for the appointment of Mr. Adel Hagekhalil as General Manager. Mr. Hagekhalil currently serves as Executive Director and General Manager of the City of Los Angeles Bureau of Street Services. Mr. Hagekhalil is expected to commence his service as Metropolitan’s General Manager on July 6, 2021.

Marcia Scully, General Counsel – Ms. Scully assumed the position of General Counsel in March 2012. She previously served as Metropolitan’s Interim General Counsel from March 2011 to March 2012. Ms. Scully joined Metropolitan in 1995, after a decade of private law practice, providing legal representation to Metropolitan on construction, employment, Colorado River and significant litigation matters. From 1981 to 1985 she was assistant city attorney for the City of Inglewood. Ms. Scully served as president of University of Michigan’s Alumnae Club of Los Angeles and is a recipient of the 1996 State Bar of California, District 7 President’s Pro Bono Service Award and the Southern California Association of Non-Profit Housing Advocate of the Year Award. She is also a member of the League of Women Voters for Whittier and was appointed for two terms on the City of Whittier’s Planning Commission, three years of which were served as chair. Ms. Scully earned a bachelor’s degree in liberal arts from the University of Michigan, a master’s degree in urban planning from Wayne State University and her law degree from Loyola Law School.

Gerald C. Riss, General Auditor – Mr. Riss was appointed as Metropolitan’s General Auditor in July 2002. As General Auditor, he is responsible for the independent evaluation of the policies, procedures and systems of control throughout Metropolitan. Mr. Riss is a certified fraud examiner, certified financial services auditor and certified risk professional with more than 25 years of experience in accounting, audit and risk management. Prior to joining Metropolitan, Mr. Riss was Vice President and Assistant Division Head of Risk Management Administration at United California Bank/Bank of the West. He also served as Senior Vice President, Director of Risk Management and General Auditor of Tokai Bank of California from 1988 until its reorganization as United California Bank in 2001. He earned a bachelor’s degree in accounting and a master’s degree in business administration from Wayne State University.

Abel Salinas, Ethics Officer – Mr. Salinas was appointed as Metropolitan’s Ethics Officer in July 2019. He is responsible for making recommendations regarding rules and policies related to lobbying, conflicts of interest, contracts, campaign contributions and internal disclosures, while providing education and advice about these rules. Prior to joining Metropolitan, Mr. Salinas worked as the Special Agent in

Charge in the U.S. Department of Labor's Office of Inspector General. Before joining that agency, he served for three years in the U.S. Office of Personnel Management. Mr. Salinas holds a bachelor's degree in criminal justice from University of Texas – Pan American and a master's degree in policy management from Georgetown University.

Katano Kasaine, Assistant General Manager/Chief Financial Officer – Ms. Kasaine has served as the Assistant General Manager/Chief Financial Officer since August 2019. She is responsible for directing Metropolitan's financial activities, including accounting and financial reporting, debt issuance and management, financial planning and strategy, managing Metropolitan's investment portfolio, budget administration, financial analysis, financial systems, and developing rates and charges. In addition, she is responsible for risk management and business continuity activities. Prior to joining Metropolitan, Ms. Kasaine worked for the City of Oakland for nearly 25 years in various roles, including Finance Director/Treasurer. She holds a bachelor's degree in business administration from Dominican University in San Rafael, California and a master's degree in public health from Loma Linda University.

Deven Upadhyay, Assistant General Manager/Chief Operating Officer – Mr. Upadhyay was appointed to his current position in November 2017. In this capacity, he oversees the management of Metropolitan's Water System Operations, Engineering Services and Water Resource Management. In addition, following the retirement of Metropolitan's Assistant General Manager/Strategic Water Initiatives at the end of 2020, Mr. Upadhyay assumed oversight responsibility for Metropolitan's Bay-Delta initiatives. Mr. Upadhyay has over 25 years of experience in the water industry. He joined Metropolitan in 1995, beginning as a Resource Specialist and then left Metropolitan in 2005 to work at the Municipal Water District of Orange County. In 2008, he returned to Metropolitan as a Budget and Financial Planning Section Manager and became a Water Resource Management Group Manager in 2010. Mr. Upadhyay has a Bachelor of Arts degree in economics from the California State University, Fullerton and a master's degree in public administration from the University of La Verne.

Shane Chapman, Assistant General Manager/Chief Administrative Officer – Mr. Chapman was appointed to his current position in January 2018 and is responsible for the strategic direction and management of Metropolitan's administrative functions. His primary responsibilities include managing human resources, information technology, real property, environmental planning, security, board administration and administrative services. Mr. Chapman joined Metropolitan as a Resource Specialist in 1991, progressing to the level of Program Manager in 2001. He became the Revenue, Rates and Budget Manager in 2003 and Assistant Group Manager in Water System Operations in 2006. Mr. Chapman served as General Manager of the Upper San Gabriel Valley Municipal Water District for seven years. Mr. Chapman has a Bachelor of Arts degree in economics from Claremont McKenna College and a master's degree in public administration from the University of Southern California.

Dee Zinke, Assistant General Manager/Chief External Affairs Officer – Ms. Zinke was appointed to her current position in January 2016. She is responsible for Metropolitan's communications, business outreach, education and legislative matters. She joined Metropolitan in 2009 as Manager of the Legislative Services Section. Before coming to Metropolitan, Ms. Zinke was the Manager of Governmental and Legislative Affairs at the Calleguas Municipal Water District for nearly 10 years, where she received recognition for her significant contributions to the Association of California Water Agencies, the Ventura County Special Districts Association and the Association of Water Agencies of Ventura County. During her tenure at Calleguas, she was named Chair of the Ventura County Watersheds Coalition and appointed by then-Secretary of Resources Mike Chrisman to the State Watershed Advisory Committee. Prior to her public service, she worked in the private sector as the Executive Officer and Senior Legislative Advocate for the Building Industry Association of Greater Los Angeles and Ventura Counties and as Director of Communications for E-Systems, a defense contractor specializing in communication, surveillance and navigation systems in Washington, D.C. Ms. Zinke holds a Bachelor of Arts degree in communication and psychology from Virginia Polytechnic Institute and State University.

Employee Relations

The total number of budgeted regular full-time Metropolitan employees on April 1, 2021 was 1,907 with 1,793 positions filled, and the remaining 114 positions under recruitment or vacant. Of the filled positions, 1,241 were represented by AFSCME Local 1902, 93 by the Supervisors Association, 304 by the Management and Professional Employees Association and 124 by the Association of Confidential Employees. The remaining 31 employees are unrepresented. The four bargaining units represent 98 percent of Metropolitan's employees. The Memorandum of Understanding ("MOU") with each of AFSCME Local 1902, the Supervisors Association, the Management and Professional Employees Association and the Association of Confidential Employees were updated through negotiations and cover the period January 1, 2017 through December 31, 2021. Bargaining for new MOUs will begin later in 2021.

Risk Management

Metropolitan is exposed to various risks of loss related to, among other things, the design and construction of facilities, and the treatment and delivery of water. With the assistance of third party claims administrators, Metropolitan is self-insured for property losses, liability, and workers' compensation. Metropolitan self-insures the first \$25 million per liability occurrence, with commercial general liability coverage of \$75 million in excess of the self-insured retention. The \$25 million self-insured retention is maintained as a separate restricted reserve. Metropolitan is also self-insured for loss or damage to its property, with the \$25 million self-insured retention also being accessible for emergency repairs and Metropolitan property losses. In addition, Metropolitan obtains other excess and specialty insurance coverages such as directors' and officers' liability, fiduciary liability and aircraft hull and liability coverage.

Metropolitan self-insures the first \$5 million for workers' compensation with statutory excess coverage. The self-insurance retentions and reserve levels currently maintained by Metropolitan may be modified by the Board at its sole discretion.

Cybersecurity

Metropolitan has adopted and maintains an active Cybersecurity Program ("CSP") that includes policies reviewed by Metropolitan's Office of Enterprise Cybersecurity, Audit department and independent third-party auditors and consultants. Metropolitan has appointed an Information Security Officer who is responsible for overseeing the annual review of the CSP and its alignment with Metropolitan's Strategic Plan. Metropolitan's policies and procedures on information governance, risk management, and compliance are consistent with the U.S. Commerce Department's National Institute of Standards and Technology Cybersecurity Framework and are consistent with the requirements prescribed by the America's Water Infrastructure Act (AWIA) for risk assessment and emergency response. Metropolitan's Cybersecurity Team is responsible for identifying cybersecurity risks to Metropolitan, preventing, investigating, and responding to any cybersecurity incidents, and providing guidance and education on the implementation of new technologies at Metropolitan. All persons or entities authorized to use Metropolitan's computer resources are required to participate in Metropolitan's Cybersecurity Awareness Training.

METROPOLITAN'S WATER SUPPLY

General

Metropolitan's principal sources of water supplies are the State Water Project and the Colorado River. Metropolitan receives water delivered from the State Water Project under State Water Contract provisions, including contracted supplies, use of carryover storage in San Luis Reservoir, and surplus supplies. Metropolitan holds rights to a basic apportionment of Colorado River water and has priority rights to an additional amount depending on availability of surplus supplies. Water management programs supplement these Colorado River supplies. To secure additional supplies, Metropolitan also has groundwater banking partnerships and water transfer and storage arrangements within and outside its service area.

Metropolitan's principal water supply sources, and other supply arrangements and water management are more fully described herein.

Metropolitan faces a number of challenges in providing adequate, reliable and high-quality supplemental water supplies for Southern California. These include, among others: (1) population growth within the service area; (2) increased competition for low-cost water supplies; (3) variable weather conditions; (4) increased environmental regulations; and (5) climate change. Metropolitan's resources and strategies for meeting these long-term challenges are set forth in its Integrated Water Resources Plan, as updated from time to time. See “—Integrated Water Resources Plan.” In addition, Metropolitan manages water supplies in response to the prevailing hydrologic conditions by implementing its Water Surplus and Drought Management (“WSDM”) Plan, and in times of prolonged or severe shortages, the Water Supply Allocation Plan (the “Water Supply Allocation Plan”). See “CONSERVATION AND WATER SHORTAGE MEASURES—Water Surplus and Drought Management Plan” and “—Water Supply Allocation Plan” in this Appendix A.

Hydrologic conditions can have a significant impact on Metropolitan's imported water supply sources. For Metropolitan's State Water Project supplies, precipitation in California's northern Sierra Nevada during the fall and winter helps replenish storage levels in Lake Oroville, a key State Water Project facility. The subsequent runoff from the spring snowmelt helps satisfy regulatory requirements in the San Francisco Bay/Sacramento-San Joaquin River Delta (“Bay-Delta”) bolstering water supply reliability in the same year. See “—State Water Project – Bay-Delta Proceedings Affecting State Water Project.” The source of Metropolitan's Colorado River supplies is primarily the watersheds of the Upper Colorado River Basin in the states of Colorado, Utah, and Wyoming. Although precipitation is primarily observed in the winter and spring, summer storms are common and can affect water supply conditions.

Uncertainties from potential future temperature and precipitation changes in a climate driven by increased concentrations of atmospheric carbon dioxide also present challenges. Areas of concern to California water planners identified by researchers include: reduction in Sierra Nevada and Colorado Basin snowpack; increased intensity and frequency of extreme weather events; and rising sea levels resulting in increased risk of damage from storms, high-tide events, and the erosion of levees and potential cutbacks of deliveries of imported water. While potential impacts from climate change remain subject to study and debate, climate change is among the uncertainties that Metropolitan seeks to address through its planning processes.

Current Water Conditions and Response Actions

California is experiencing its second consecutive dry year. As of May 9, 2021, northern Sierra precipitation was 48 percent of the 50-year average for the time of year, and the northern Sierra April 1, 2021 snowpack peaked on March 24 and measured at 72 percent of the April 1 average. As of May 1, 2021, the water year runoff forecast for the Sacramento River was 6.7 million acre-feet or 38% of average. Unimpaired flows through April 2021 for the Sacramento Valley were the 4th driest in the historical record dating back to 1906, behind only 1977, 1931 and 1924. Dry soil moisture conditions combined with low precipitation are the main drivers for the low runoff forecast. As a result of the continuing dry conditions, on March 23, 2021, the California Department of Water Resources (“DWR”) notified State Water Contractors (defined below) that its calendar year 2021 allocation estimate of State Water Project water was decreased from the initial allocation estimate of 10 percent to 5 percent, or 95,575 acre-feet for Metropolitan. Further changes to the 2021 allocation are extremely unlikely to occur this late in the season. The allocation estimate for 2021 follows a reduced allocation of State Water Project to State Water Contractors of 20 percent of contracted amounts in calendar year 2020. (An acre-foot is the amount of water that will cover one acre to a depth of one foot and equals approximately 325,851 gallons, which represents the needs of three average families in and around the home for one year within Metropolitan's service area.) See “—State Water Project.”

An extended drought period is ongoing in the Colorado River Basin. The Upper Colorado River Basin snowpack accumulation peaked on March 29, 2021 and measured at 88 percent of the 30-year April 1 median. As of May 4, 2021, the water year runoff forecast into Lake Powell was 34% of average, or the 3rd driest since Lake Powell was filled in 1964, behind only 2002 and 1997. As with the Sierra Nevada, dry soil moisture conditions and low precipitation are the main drivers for the low runoff forecast. As of May 9, 2021, the total system storage in the Colorado River Basin was 43 percent of capacity, a decrease of nine percent or 5.38 million acre-feet from the same time the prior year. The dry conditions are not affecting Metropolitan's supplies this year, which are projected to be 1,008,700 acre-feet. According to the Bureau of Reclamation's latest forecast, if current projections hold or conditions worsen, a first-ever shortage is anticipated to be declared in August 2021 for calendar year 2022, which would reduce deliveries to Arizona, Nevada, and Mexico. Because of its higher priority, Metropolitan will not be directly affected by this shortage in 2022 and will be able to continue to take ICS out of Lake Mead and fill the CRA if needed. See “–Colorado River Aqueduct.”

On April 21, 2021, Governor Newsom proclaimed a state of emergency in Mendocino and Sonoma counties due to drought conditions in the Russian River Watershed. The Russian River Watershed is not a source of water for Metropolitan and the region is not connected to either the State Water Project or the federal Central Valley Project. On May 10, 2021, Governor Newson expanded the drought emergency proclamation to cover Klamath River, Sacramento-San Joaquin Delta and Tulare Lake watersheds bringing the total number of counties under emergency proclamation to 41. The declaration of a drought emergency has not yet been extended to include Southern California counties.

Metropolitan has planned and prepared for dry conditions by investing in vital infrastructure to increase its storage capacity. Metropolitan's storage as of January 1, 2021 is estimated to be 3.91 million acre-feet. See “–Storage Capacity and Water in Storage.” Metropolitan is prepared to meet water demands in its service area in calendar year 2021 using a combination of CRA deliveries, storage reserves and, if so determined, supplemental water transfers and purchases. Metropolitan has initiated the process to withdraw from its dry-year storage reserves in the State Water Project banking programs and flexible storage accounts. On April 13, 2021, the Board authorized the General Manager to secure up to 65,000 acre-feet of additional water pursuant to one-year water transfers from water districts located north of the Sacramento-San Joaquin River Delta. If secured, the authorized water transfers would allow Metropolitan to preserve some water stored in surface water reservoirs on the State Water Project system for next year, should the critically dry pattern continue into 2022. See “– Water Transfer, Storage and Exchange Programs – State Water Project Agreements and Programs – Other Ongoing Activities.” Metropolitan also continues to encourage responsible and efficient water use to lower demands. See “CONSERVATION AND WATER SHORTAGE MEASURES” in this Appendix A.

Integrated Water Resources Plan

Overview. The Integrated Water Resources Plan (hereafter, “IRP”) is Metropolitan’s principal water resources planning document. Metropolitan, its member agencies, subagencies and groundwater basin managers developed their first IRP as a long-term planning guideline for resources and capital investments. The purpose of the IRP was the development of a portfolio of preferred resources to meet the water supply reliability and water quality needs for the region in a cost-effective and environmentally sound manner. The first IRP was adopted by the Board in January 1996 and has been subsequently updated in 2004, 2010 and 2015. As noted below, Metropolitan’s new 2020 IRP is under development and a draft is expected to be released in 2021. See “–2020 IRP.”

2015 IRP Update. Metropolitan’s last completed IRP update in 2015 (the “2015 IRP Update”) was adopted by Metropolitan’s Board on January 12, 2016, as a strategy to set goals and a framework for water resources development. This strategy enables Metropolitan and its member agencies to manage future challenges and changes in California’s water conditions and to balance investments with water reliability benefits. The 2015 IRP Update seeks to provide regional reliability through 2040 by stabilizing

Metropolitan's traditional imported water supplies and continuing to develop additional conservation programs and local resources, with an increased emphasis on regional collaboration. It also advances long-term planning for potential future contingency resources, such as storm water capture and seawater desalination.

The 2015 IRP Update was formulated with input from member agencies, retail water agencies, and other stakeholders including water and wastewater managers, environmental and business interests and the community. It provides an adaptive management approach to address future uncertainty, including uncertainty from climate change. Adaptive water management, as opposed to a rigid set of planned actions over the coming decades, is the most nimble and cost-effective manner for Metropolitan and local water districts throughout Southern California to effectively prepare for the future. An adaptive management approach began to evolve with Metropolitan's first IRP in 1996, after drought-related shortages in 1991 prompted a rethinking of Southern California's long-term water strategy. Reliance on imported supplies to meet future water needs has decreased steadily over time, replaced by plans for local actions to meet new demands. The 2015 IRP Update continues a diversified portfolio approach to water management.

Specifically, the 2015 IRP Update identifies the goals, approaches and regional targets for water resource development that are needed to ensure reliability under planned conditions through the year 2040, which are described below.

State Water Project. The State Water Project is one of Metropolitan's two major sources of water. The goal for State Water Project supplies is to adaptively manage flow and export regulations in the near term and to achieve a long-term Bay-Delta solution that addresses ecosystem and water supply reliability challenges. In furtherance of this goal, Metropolitan continues to participate and seek successful outcomes for a potential Bay-Delta conveyance project and the California EcoRestore efforts. See “–State Water Project” and “REGIONAL WATER RESOURCES–Local Water Supplies” in this Appendix A. The stated goal of the IRP is to manage State Water Project supplies in compliance with regulatory restrictions in the near-term for an average of 980,000 acre-feet of annual supplies, and to pursue an outcome for a potential Bay-Delta conveyance project and California EcoRestore efforts aimed towards achieving long-term average supplies of approximately 1.2 million acre-feet annually from this resource. See “–State Water Project –Bay-Delta Proceedings Affecting State Water Project.”

Colorado River Aqueduct. The CRA delivers water from the Colorado River, Metropolitan's original source of supply. Metropolitan has helped to fund and implement agricultural conservation programs, improvements to river operation facilities, land management programs and water transfers and exchanges through agreements with agricultural water districts in Southern California, entities in Arizona and Nevada that use Colorado River water, and the Bureau of Reclamation. See “–Colorado River Aqueduct” and “–Water Transfer, Storage and Exchange Programs – Colorado River Aqueduct Agreements and Programs.” The stated goal of the IRP for the CRA supplies is to maintain current levels of water supplies from existing programs, while also developing flexibility through dry-year programs and storage to ensure that a minimum of 900,000 acre-feet of CRA deliveries are available when needed, with a target of 1.2 million acre-feet in dry years.

Water Transfers and Exchanges. Under voluntary water transfer or exchange agreements, agricultural communities using irrigation water may periodically sell or conserve some of their water allotments for use in urban areas. The water may be delivered through existing State Water Project or CRA facilities or may be exchanged for water that is delivered through such facilities. Metropolitan's policy toward potential transfers states that the transfers will be designed to protect and, where feasible, enhance environmental resources and avoid the mining of local groundwater supplies. See “–Water Transfer, Storage and Exchange Programs.” The stated goal of the IRP is to pursue transfers and exchanges to hedge against shorter-term water demand and supply imbalances while long-term water supply solutions are developed and implemented.

Water Conservation. Conservation and other water use efficiencies are integral components of Metropolitan's IRP. Metropolitan has invested in conservation programs since the 1980s. Historically, most of the investments have been in water efficient fixtures in the residential sector. With outdoor water use comprising at least 50 percent of residential water demand, in more recent years, Metropolitan has increased its conservation efforts to target outdoor water use reduction in its service area. See "CONSERVATION AND WATER SHORTAGE MEASURES" in this Appendix A. The stated goal of the IRP is to pursue further water conservation savings of 485,000 acre-feet annually by 2040 through continued increased emphasis on outdoor water-use efficiency using incentives, outreach/education and other programs. Metropolitan's conservation program is regularly reviewed and revised in order to meet the stated goal of the IRP.

Local Water Supplies. Local supplies are a significant and growing component of the region's diverse water portfolio. Local supplies can provide over half of the region's water in a given year, and the maintenance of these supplies remain an integral part of the IRP. Similar to water conservation, local supplies serve the important function of reducing demands for imported water supplies and thereby making regional water system capacity and storage available and accessible to meet the needs of the region. Local water supply projects may include, among other things, recycled water, groundwater recovery, conjunctive use, stormwater, and seawater desalination. Metropolitan offers financial incentives to member agencies to help fund the development of a number of these types of local supply projects. The stated goal of the IRP is to seek to develop 227,000 acre-feet of additional local supplies produced by existing and future projects, with the region reaching a target of 2.4 million acre-feet of total dependable local supplies by 2040. Additionally, in 2018, an interim Local Resources Program target was adopted to spur development of additional local supplies in furtherance of the stated goal of the IRP. See "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

2020 IRP. Development of Metropolitan's 2020 IRP is underway. The year 2020 marks the conclusion of the 25-year planning cycle envisioned by the inaugural 1996 IRP. The 2020 IRP is anticipated to build upon Metropolitan's adaptive management strategy utilizing a scenario planning approach. This approach will evaluate a variety of potential scenarios and therefore prepare the region for a wider range of potential outcomes by identifying solutions and policies that are robust across a variety of possible future conditions.

Metropolitan initiated the 2020 IRP process in February 2020. Crucial to scenario development for the 2020 IRP is determining how to describe and measure impacts of scenario drivers of change (that is, specific factors whose future values and outcomes are uncertain, but significantly impact future water supply reliability) on water resources and demands. Metropolitan developed an extensive array of drivers affecting water supply and demand by incorporating feedback from the Board, member agencies, retail agencies, and other stakeholders through multiple workshops hosted by Metropolitan as well as an online survey. A draft assessment was assembled with in-house area experts to establish and evaluate more than 80 relevant supply and demand links that covered all identified drivers. Preliminary assumptions and gap analyses of the draft scenarios were presented to the Board in December 2020. As of March 2021, Metropolitan staff has worked with input received from the Board, member agencies, and expert consultants to develop refined analyses of draft scenarios for member agency and Board review. A draft of the 2020 IRP is expected to be available in 2021.

Metropolitan's 2015 IRP Update and associated materials are available on Metropolitan's website at: <http://www.mwdh2o.com/AboutYourWater/Planning/Planning-Documents/Pages/default.aspx>. Information and materials relating to Metropolitan's ongoing development of its 2020 IRP are available at: <http://www.mwdwatertomorrow.com/IRP/index.html>. The materials and other information set forth on Metropolitan's website are not incorporated into this Appendix A and should not be construed to be a part of this Appendix A by virtue of the foregoing reference to such materials and website.

Specific projects developed by Metropolitan in connection with the implementation of its IRP are subject to Board consideration and approval, as well as environmental and regulatory documentation and compliance.

State Water Project

Background

One of Metropolitan's two major sources of water is the State Water Project, which is owned by the State, and managed and operated by DWR. The State Water Project is the largest state-built, multipurpose, user-financed water project in the country. It was designed and built primarily to deliver water, but also provides flood control, generates power for pumping, is used for recreation, and enhances habitat for fish and wildlife. The State Water Project provides irrigation water to 750,000 acres of farmland, mostly in the San Joaquin Valley, and provides municipal and industrial water to approximately 27 million of California's estimated 39.9 million residents, including the population within the service area of Metropolitan.

The State Water Project's watershed encompasses the mountains and waterways around the Feather River, the principal tributary of the Sacramento River, in the Sacramento Valley of Northern California. Through the State Water Project, Feather River water stored in and released from Oroville Dam (located about 70 miles north of Sacramento, east of the city of Oroville, California) and unregulated flows diverted directly from the Bay-Delta are transported south through the Central Valley of California, over the Tehachapi Mountains and into Southern California, via the California Aqueduct, to four delivery points near the northern and eastern boundaries of Metropolitan's service area. The total length of the California Aqueduct is approximately 444 miles. See "METROPOLITAN'S WATER DELIVERY SYSTEM—Primary Facilities and Method of Delivery –State Water Project" in this Appendix A.

State Water Contract

Terms of the Contract. In 1960, Metropolitan signed a water supply contract (as amended, the "State Water Contract") with DWR to receive water from the State Water Project. Metropolitan is one of 29 agencies and districts that have long-term contracts for water service from DWR (known collectively as the "State Water Contractors" and sometimes referred to herein as "Contractors"). Metropolitan is the largest of the State Water Contractors in terms of the number of people it serves (approximately 19 million), the share of State Water Project water that it has contracted to receive (approximately 46 percent), and the percentage of total annual payments made to DWR by agencies with State water supply contracts (approximately 50 percent for fiscal year 2019-20). Metropolitan received its first delivery of State Water Project water in 1972.

Pursuant to the terms of the State water supply contracts, all water-supply related expenditures for capital and operations, maintenance, power, and replacement costs associated with the State Water Project facilities are paid for by the State Water Contractors as components of their annual payment obligations to DWR. In exchange, Contractors have the right to participate in the system, with an entitlement to water service from the State Water Project and the right to use the portion of the State Water Project conveyance system necessary to deliver water to them. Each year DWR estimates the total State Water Project water available for delivery to the State Water Contractors and allocates the available project water among the State Water Contractors in accordance with the State water supply contracts. Late each year, DWR announces an initial allocation estimate for the upcoming year, but periodically provides subsequent estimates throughout the year if warranted by developing precipitation and water supply conditions. Based upon the updated rainfall and snowpack values, DWR's total water supply availability projections are refined during each calendar year and allocations to the State Water Contractors are adjusted accordingly.

Metropolitan's State Water Contract has been amended a number of times since its original execution and delivery. Several of the amendments, entered into by DWR and various subsets of State Water Contractors, relate to the financing and construction of a variety of State Water Project facilities and

improvements and impose certain cost responsibility therefor on the affected Contractors, including Metropolitan. For a description of Metropolitan's financial obligations under its State Water Contract, including with respect to such amendments, see "METROPOLITAN EXPENSES–State Water Contract Obligations" in this Appendix A.

Amendments, approved by Metropolitan's Board in 1995, and since executed by DWR and 27 of the State Water Contractors (collectively known as the "Monterey Amendment"), among other things, made explicit that the Contractors' rights to use the portion of the State Water Project conveyance system necessary to deliver water to them also includes the right to convey non-State Water Project water at no additional cost as long as capacity exists. These amendments also expanded the ability of the State Water Contractors to carry over State Water Project water in State Water Project storage facilities, allowed participating Contractors to borrow water from terminal reservoirs, and allowed Contractors to store water in groundwater storage facilities outside a Contractor's service area for later use. These amendments provided the means for individual Contractors to increase supply reliability through water transfers and storage outside their service area. Metropolitan has subsequently developed and actively manages a portfolio of water supplies to convey through the California Aqueduct pursuant to these contractual rights. See "–Water Transfer, Storage and Exchange Programs." The Monterey Amendment is the subject of ongoing litigation. See "– Related Litigation–Monterey Amendment" below.

Under its State Water Contract, Metropolitan has a contractual right to its proportionate share of the State Water Project water that DWR determines annually is available for allocation to the Contractors. This determination is made by DWR each year based on existing supplies in storage, forecasted hydrology, and other factors, including water quality and environmental flow obligations and other operational considerations. Available State Water Project water is then allocated to the Contractors in proportion to the amounts set forth in "Table A" of their respective State water supply contract (sometimes referred to herein as "Table A State Water Project water"). Pursuant to Table A of its State Water Contract, Metropolitan is entitled to approximately 46 percent of the total annual allocation made available to State Water Contractors each year. Metropolitan's State Water Contract, under a 100 percent allocation, provides Metropolitan 1,911,500 acre-feet of water. The 100 percent allocation is referred to as the contracted amount.

DWR operates the State Water Project in coordination with the federal Central Valley Project, which is operated by the Bureau of Reclamation. Since 1986, the coordinated operations have been undertaken pursuant to a Coordinated Operations Agreement for the Central Valley Project and State Water Project (the "COA"). The COA defines how the State and federal water projects share water quality and environmental flow obligations imposed by regulatory agencies. The agreement calls for periodic review to determine whether updates are needed in light of changed conditions. After completing a joint review process, DWR and the Bureau of Reclamation agreed to amend the COA to reflect water quality regulations, biological opinions and hydrology updated since the 1986 agreement was signed. On December 13, 2018, DWR and the Bureau of Reclamation executed an Addendum to the COA (the "COA Addendum"). Through the COA Addendum, DWR will adjust current State Water Project operations to modify pumping operations, as well as project storage withdrawals to meet in-basin uses, pursuant to revised calculations based on water year types. The COA Addendum will shift responsibilities for meeting obligations between the Central Valley Project and the State Water Project, resulting in a shift of approximately 120,000 acre-feet in long-term average annual exports from the State Water Project to the Central Valley Project. In executing the COA Addendum, DWR found the agreement to be exempt from environmental review under the California Environmental Quality Act ("CEQA") as an ongoing project and that the adjustments in operations are within the original scope of the project. On January 16, 2019, commercial fishing groups and a tribe ("petitioners") filed a lawsuit against DWR alleging that entering into the COA Addendum violated CEQA, the Delta Reform Act, and the public trust doctrine. On April 11, 2019, Westlands Water District ("Westlands") filed a motion to intervene, which was not opposed by any parties. The court granted Westlands' motion on June 7, 2019. On October 7, 2019, the North Delta Water Agency filed a motion to intervene. On November 19, 2019, the court granted North Delta Water Agency's motion. The petitioners are

still in the process of preparing the administrative record and no date for a hearing on the merits has been set. The effect of this lawsuit on the COA Addendum and State Water Project operations cannot be determined at this time.

From calendar year 2006 through 2020, the amount of water received by Metropolitan from the State Water Project, including water from water transfer, groundwater banking and exchange programs delivered through the California Aqueduct (described under “–Water Transfer, Storage and Exchange Programs” below), varied from a low of 593,000 acre-feet in calendar year 2015 to a high of 1,695,000 acre-feet in 2006. In calendar year 2019, DWR’s allocation to State Water Contractors was 75 percent of contracted amounts, or 1,433,625 acre-feet, for Metropolitan. In calendar year 2020, DWR’s allocation to State Water Contractors was 20 percent of contracted amounts, or 382,300 acre-feet, for Metropolitan.

On December 1, 2020, DWR announced an initial calendar year 2021 allocation of 10 percent. On March 23, 2021, DWR decreased the allocation estimate to 5 percent as California experiences a second consecutive dry year. See also “–Current Water Conditions” above. Further changes to the 2021 allocation are highly unlikely at this time of the year.

The term of Metropolitan’s State Water Contract currently extends to December 31, 2035 or until all DWR bonds issued to finance construction of project facilities are repaid, whichever is longer. Upon expiration of the State Water Contract term, Metropolitan has the option to continue service under substantially the same terms and conditions. Metropolitan and other State Water Contractors have undertaken negotiations with DWR to extend their State water supply contracts. In June 2014, DWR and the State Water Contractors reached an Agreement in Principle (the “Agreement in Principle”) on an amendment to the State water supply contract to extend the contract and to make certain changes related to financial management of the State Water Project in the future. DWR and 25 of the State Water Contractors, including Metropolitan, have signed the Agreement in Principle. Under the Agreement in Principle, the term of the State water supply contract for each Contractor that signs an amendment would be extended until December 31, 2085. The Agreement in Principle served as the “proposed project” for purposes of environmental review under CEQA. In August 2016, DWR released for public comment a draft Environmental Impact Report (“EIR”) for the proposed project. The public review period on the draft EIR ended in October 2016. State law requires DWR to make a presentation to the State Legislature at an informational hearing at least 60 days prior to final approval of a State water supply contract extension. That hearing occurred on September 11, 2018. DWR released the final EIR on November 16, 2018 and certified the final EIR and issued a Notice of Determination on December 11, 2018. Concurrently, Metropolitan considered the certified final EIR and approved the water supply contract extension amendment at its December 11, 2018 Board meeting. That same day, DWR filed a lawsuit seeking to validate the contract extension. In January 2019, North Coast Rivers Alliance and others separately filed two petitions for writ of mandate and a complaint for declaratory and injunctive relief challenging DWR’s final EIR and approval of the State water supply contract extension amendment under CEQA, the Delta Reform Act, and public trust doctrine. Mandatory CEQA settlement conferences were held on February 22, 2019. On June 18, 2019, the validation and CEQA cases were deemed related, and on August 20, 2019, they were assigned to a single judge. On August 28, 2020, DWR certified the CEQA administrative record. On September 28, 2020, DWR filed answers in the two CEQA cases. No date for a hearing on the merits has been set and no briefing has occurred in any of the three actions. Any adverse impact of this litigation and rulings on Metropolitan’s State Water Project supplies cannot be determined at this time. To date, 22 of the 29 State Water Contractors have executed the amendment, exceeding the DWR established threshold needed for it to be implemented. However, DWR is awaiting a decision at the trial court on the validation litigation described above before moving forward with implementation of the amendments with individual State Water Contractors. Unless the contract extension amendment is implemented, the amortization period for any future State Water Project bonds will end in 2035.

In a process separate from the State Water Contract extension amendment described above, Metropolitan and other State Water Contractors undertook negotiations with DWR to amend their State water supply contracts to clarify how costs would be allocated for the California WaterFix project approved by DWR in 2017, as well as to clarify the criteria applicable to certain water management tools including single and multi-year water transfers and exchanges. In 2018, DWR and the State Water Contractors reached an agreement in principle (the “2018 AIP”) and DWR subsequently issued a draft EIR. On April 29, 2019, Governor Newsom issued an executive order that included consideration of a potential single-tunnel Bay-Delta conveyance facility (“Delta Conveyance Project”). Following its rescission of all project approvals for the California WaterFix project, DWR removed the California WaterFix cost provisions from the 2018 AIP and, on February 28, 2020, recirculated the draft EIR for only the 2018 AIP’s water management provisions. DWR certified a Final EIR for the revised 2018 AIP in August 2020, and finalized the form of the amendment to implement the 2018 AIP in October 2020. The water management provisions amendment allows for greater flexibility for transfers and exchanges among the State Water Contractors. Specifically, the amendment confirms existing practices for exchanges, allows more flexibility for non-permanent water transfers, and allows for the transfer and exchange of certain portions of Article 56 carryover water. In September 2020, North Coast Rivers Alliance, California Water Impact Network and others separately filed two lawsuits challenging DWR’s final EIR and approval of the State water supply contract water management provisions amendment under CEQA. North Coast Rivers Alliance also alleges violations of the Delta Reform Act, and public trust doctrine, and seeks declaratory and injunctive relief. The cases were deemed related and assigned to the same judge. DWR is in the process of compiling the administrative record. Any adverse impact of this litigation and rulings on Metropolitan’s State Water Project supplies cannot be determined at this time. In late 2020 and early 2021, a sufficient number of the State Water Contractors approved and executed the amendments as required by DWR for it to be deemed fully executed. The amendments went into effect on February 28, 2021.

In light of the State’s change in direction from California WaterFix to a potential single tunnel Delta Conveyance Project, Metropolitan and other State Water Contractors embarked on a third public process to further negotiate proposed amendments to their State water supply contracts related to cost allocation for the potential Delta Conveyance Project. Pursuant to the terms of the Monterey settlement (referenced below), negotiations for this State Water Project contract amendment were completed in public. In March of 2021, DWR and the State Water Contractors concluded public negotiations and reached an Agreement in Principle (the “Delta Conveyance AIP”) that will be the basis for amendment of the State water supply contracts. The future contract amendment contemplated by the Delta Conveyance AIP would provide a mechanism that would allow for the costs related to any Delta Conveyance Project to be allocated and collected by, DWR. The Delta Conveyance AIP also provides for the allocation of benefits for any Delta Conveyance Project in proportion to each State Water Contractor’s participation. DWR will maintain a table reflecting decisions made by public agency boards regarding that agency’s participation. Contract language for the proposed amendments is under development. Consideration of the amendments for approval by DWR and the State Water Contractors would not occur until after DWR’s completion of the Delta Conveyance Project environmental review, which is not expected before 2024. See “Bay-Delta Planning Activities; Delta Conveyance” under “Bay Delta Proceedings Affecting State Water Project” below.

Related Litigation—Monterey Amendment. On May 4, 2010, DWR completed an EIR and concluded a remedial CEQA review for the Monterey Amendment (described under “— Terms of the Contract” above), which reflects the settlement of certain disputes regarding the allocation of State Water Project water. Central Delta Water Agency, South Delta Water Agency, California Water Impact Network, California Sportfishing Protection Alliance, and the Center For Biological Diversity filed a lawsuit against DWR in Sacramento County Superior Court challenging the validity of the EIR under CEQA and the validity of underlying agreements under a reverse validation action (the “Central Delta I” case). In January 2013, the court ruled that the validation cause of action in Central Delta I was time barred by the statute of limitations. The court also held that DWR must complete a limited scope remedial CEQA review addressing the potential impacts of the Kern Water Bank, a portion of the Monterey Amendment that does not directly affect Metropolitan.

The court also ruled that the State Water Project may continue to be operated under the terms of the Monterey Amendment while the remedial CEQA review is prepared and leaves in place the underlying project approvals while DWR prepares the remedial CEQA review. Plaintiffs appealed. Briefing by the parties was completed, but no date for oral argument has been set.

In September 2016, DWR certified the Final Revised Draft EIR for the Monterey Amendment, recorded a Notice of Determination, and filed papers in the trial demonstrating compliance with the court's order for remedial CEQA review. On October 21, 2016, the petitioner group from Central Delta I and a new lead petitioner, Center for Food Safety, filed litigation against DWR challenging this EIR and named Metropolitan and the other State Water Project contractors as respondent parties. On October 2, 2017, the court denied Center for Food Safety's petition. Plaintiffs appealed. Briefing in this appeal has been completed. No date for oral argument has been set. Any adverse impact of any of the litigation and rulings relating to the Monterey Amendment on Metropolitan's State Water Project supplies cannot be determined at this time.

2017 Oroville Dam Spillway Incident

Oroville Dam, the earthfill embankment dam on the Feather River which impounds Lake Oroville, is operated by DWR as a facility of the State Water Project. On February 7, 2017, the main flood control spillway at Oroville Dam, a gated and concrete lined facility, experienced significant damage as DWR released water to manage higher inflows driven by continued precipitation in the Feather River basin. The damaged main spillway impaired DWR's ability to manage lake levels causing water to flow over the emergency spillway structure, an ungated, 1,730-foot-long concrete barrier located adjacent to and north of the main flood control spillway structure. Use of the emergency spillway structure resulted in erosion that threatened the stability of the emergency spillway structure. This concern prompted the Butte County Sheriff, on February 12, 2017, to issue an evacuation order for approximately 200,000 people living in Oroville and the surrounding communities.

On November 1, 2018, DWR completed reconstruction of the main spillway to its original design capacity of approximately 270,000 cubic feet per second ("cfs"), a capacity almost twice its highest historical outflow. Work on the emergency spillway was substantially completed in April 2019. Mitigation measures such as slope revegetation are expected to be completed in 2021. Although the full extent of the costs of the response and recovery efforts are unknown at this time, DWR has indicated that the total costs of the recovery and restoration project prior to any federal or other reimbursement are estimated to be approximately \$1.2 billion. Cost estimates are based on actual and projected work and may be adjusted further as work continues through completion of the project in 2021. Funding from the Federal Emergency Management Agency ("FEMA") is generally available under FEMA's Public Assistance Program to recover 75 percent of eligible costs to restore facilities damaged as a result of natural disasters to their pre-disaster condition. As of January 7, 2021, DWR estimates that repair costs will total \$1.2 billion and has submitted \$815 million to FEMA as eligible costs for reimbursement under the Public Assistance Program. FEMA has approved \$567 million in reimbursement funding through February 2021 as its 75 percent share of eligible costs. DWR expects reimbursement of a total of \$630 million from FEMA's Public Assistance Program. FEMA denied claims for reimbursement of \$278 million of emergency spillway costs; however, DWR is seeking reimbursement of \$100 million of these costs through FEMA's Hazard Mitigation Grant Program ("HMGP"). On April 22, 2021, FEMA notified the California Governor's Office of Emergency Services that DWR's first appeal for a waiver request under the HGMP was denied. As a result, DWR is currently reviewing this correspondence. Any unrecovered costs (including the \$100 million for which DWR seeks reimbursement through FEMA's HMGP, if not reimbursed) to be paid for by the State Water Contractors under the State water contracts are expected to be financed long-term with DWR bonds. Metropolitan's potential share of the cost for the unreimbursed work totals about \$243 million. About \$22 million of this amount has already been paid through the State Water Project annual statement of charges.

Various lawsuits have been filed against DWR asserting claims for property damage, economic losses, environmental impacts and civil penalties related to this incident. Neither Metropolitan nor any other State Water Contractor was named as a defendant in any of these lawsuits. These cases, which have been coordinated in Sacramento Superior Court (Case No. JCCP 4974), include a lawsuit filed by the Butte County District Attorney (“DA”) that seeks up to \$51 billion in civil penalties. This lawsuit asserts a single claim under California Fish and Game Code section 5650, *et seq.*, which makes it unlawful to deposit or place certain substances into the waters of the State, including lime, slag and “any substance or material deleterious to fish, plant life, mammals, or bird life.” Among other things, the statute provides for the assessment of civil penalties of up to \$25,000 a day and \$10 per pound of material deposited in violation of its strictures.

The State water supply contracts provide that Metropolitan and the other State Water Contractors are not liable for any claim of damage of any nature arising out of or connected the control, carriage, handling, use, disposal or distribution of State Water Project water prior to the point where it reaches their turnouts. However, DWR recently has asserted that regardless of legal liability all costs of the State Water Project system must be borne by State Water Contractors. Thus, DWR has indicated that it intends to bill the State Water Contractors for any expenditures related to this litigation (cost of litigation, settlements, damages awards/verdicts).

In light of DWR’s position, Metropolitan, the State Water Contractors, Santa Clara Valley Water District, Mojave Water Agency (“Mojave”), and Kern County Water Agency filed a motion to intervene in the Butte County DA case on September 3, 2020, in order to protect their contractual rights and interests in the State Water Project. A hearing on that motion had been scheduled for January 8, 2021, but the case was dismissed after the court granted DWR’s motion for summary judgment, which mooted the motion to intervene.

DWR filed a motion for summary judgment in the Butte County DA case on September 3, 2020. On December 18, 2020, the Sacramento Superior Court issued a ruling granting DWR’s motion. In its ruling, the court determined that, as a matter of law, DWR is not a person subject to the penalty provisions of the California Fish and Game Code section at issue, and therefore the Butte County DA’s complaint failed to state a cause of action. As a result of the granting of the motion, the matter was dismissed by the trial court. The judgment was entered on January 11, 2021. The Butte County DA filed a notice of appeal on February 9, 2021. On March 30, 2021, the Third District Court of Appeal ordered this case to mediation. As a result, the deadlines for designation of the record on appeal and submission of a proposed briefing schedule have been suspended. At this time, Metropolitan cannot predict the outcome of this litigation or the amount of civil penalties that might be assessed in the event the Butte County DA prevails on an appeal of the decision.

Bay-Delta Proceedings Affecting State Water Project

General. In addition to being a source of water for diversion into the State Water Project, the Bay-Delta is the source of water for local agricultural, municipal and industrial needs, and also supports significant resident and anadromous fish and wildlife resources and important recreational uses of water. Both the State Water Project’s upstream reservoir operations and its Bay-Delta diversions can at times affect these other uses of Bay-Delta water directly, or indirectly, through impacts on Bay-Delta water quality. A variety of proceedings and other activities are ongoing with the participation of various State and federal agencies, as well as California’s environmental, urban and agricultural communities, in an effort to develop long-term, collectively-negotiated solutions to the environmental and water management issues concerning the Bay-Delta, and Metropolitan actively participates in these proceedings. Metropolitan cannot predict the ultimate outcome of any of the litigation or regulatory processes described below but believes that a materially adverse impact on the operation of State Water Project pumps, Metropolitan’s State Water Project deliveries or Metropolitan’s water reserves could result.

SWRCB Regulatory Activities and Decisions. The State Water Resources Control Board (the “SWRCB”) is the agency responsible for setting water quality standards and administering water rights throughout California. The SWRCB exercises its regulatory authority over the Bay-Delta by means of public proceedings leading to regulations and decisions that can affect the availability of water to Metropolitan and other users of State Water Project water. These include the Water Quality Control Plan (“WQCP”) for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary, which establishes the water quality objectives and proposed flow regime of the estuary, and water rights decisions, which assign responsibility for implementing the objectives of the WQCP to users throughout the system by adjusting their respective water rights permits.

Since 2000, SWRCB’s Water Rights Decision 1641 (“D-1641”) has governed the State Water Project’s ability to export water from the Bay-Delta for delivery to Metropolitan and other agencies receiving water from the State Water Project. D-1641 allocated responsibility for meeting flow requirements and salinity and other water quality objectives established earlier by the WQCP.

The WQCP gets reviewed periodically and new standards and allocations of responsibility can be imposed on the State Water Project as a result. The last review was completed in 2006, and the current review has been ongoing since approximately 2010.

The SWRCB’s current review and update of the WQCP is being undertaken in phased proceedings. In December 2018, the SWRCB completed Phase 1 of the WQCP proceedings, adopting the plan amendments and environmental documents to support new flow standards for San Joaquin River tributaries and revised southern Delta salinity objectives. Various stakeholders filed suit against the SWRCB challenging these amendments. As part of Phase 2 proceedings, a framework document for the second plan amendment process, focused on the Sacramento River and its tributaries, Delta eastside tributaries, Delta outflows, and interior Delta flows, was released in July 2018. The framework describes changes that will likely be proposed by the SWRCB through formal proposed amendments and supporting environmental documents. The proposed changes include certain unimpaired flow requirements for the Sacramento River and its salmon-bearing tributaries. The SWRCB has also encouraged all stakeholders to work together to reach one or more voluntary agreements for consideration by the SWRCB that could implement the proposed amendments to the WQCP through a variety of tools, while seeking to protect water supply reliability. Metropolitan is participating in the Phase 2 proceedings and voluntary agreement negotiations.

Bay-Delta Planning Activities; Delta Conveyance. In 2000, several State and federal agencies released the CALFED Bay-Delta Programmatic Record of Decision and Environmental Impact Report/Environmental Impact Statement (“EIR/EIS”) that outlined and disclosed the environmental impacts of a 30-year plan to improve the Bay-Delta’s ecosystem, water supply reliability, water quality, and levee stability. The CALFED Record of Decision remains in effect and many of the State, federal, and local projects begun under CALFED continue.

In 2006 multiple State and federal resource agencies, water agencies, and other stakeholder groups entered into a planning agreement for the Bay-Delta Conservation Plan (“BDCP”). The BDCP was originally conceived as a comprehensive conservation strategy for the Bay-Delta designed to restore and protect ecosystem health, water supply, and water quality within a stable regulatory framework to be implemented over a 50-year time frame with corresponding long-term permit authorizations from fish and wildlife regulatory agencies. The BDCP includes both alternatives for new water conveyance infrastructure and extensive habitat restoration in the Bay-Delta.

The existing State Water Project Delta water conveyance system needs to be improved and modernized to address operational constraints on pumping in the south Delta as well as risks to water supplies and water quality from climate change, earthquakes, and flooding. Operational constraints are

largely due to biological opinions and incidental take permits to which the State Water Project is subject that substantially limit the way DWR operates the State Water Project.

In 2015, the State and federal lead agencies proposed an alternative implementation strategy and new alternatives to the BDCP to provide for the protection of water supplies conveyed through the Bay-Delta and the restoration of the ecosystem of the Bay-Delta, termed “California WaterFix” and “California EcoRestore,” respectively. Planned water conveyance improvements, California WaterFix, would be implemented by DWR and the Bureau of Reclamation as a stand-alone project with the required habitat restoration limited to that directly related to construction mitigation. Ecosystem improvements and habitat restoration more generally, California EcoRestore, would be undertaken under a more phased approach.

As part of California EcoRestore, which was initiated in 2015, the State is pursuing more than 30,000 acres of Delta habitat restoration. Work on a number of EcoRestore projects is ongoing. The overall estimated cost to complete the current list of EcoRestore projects is \$750-950 million, with approximately half expected to be paid from the State Water Project by State Water Contractors and half from other funding sources. Over the first five years (which is 2015-2020), EcoRestore represents an investment of approximately \$500 million for implementation and planning costs. This includes certain amounts being paid by the State Water Contractors, including Metropolitan, for the costs of habitat restoration required to mitigate State and federal water project impacts pursuant to the biological opinions. See also “–Endangered Species Act and Other Environmental Considerations – Endangered Species Act Considerations – State Water Project.”

In July 2017, DWR certified a final EIR and approved the California WaterFix as an improvement to the State Water Project. The California Water Fix, as then approved, would have included new north Bay-Delta water diversion facilities with a total maximum capacity of 9,000 cfs and two tunnels for the transportation of State Water Project and Central Valley Project water from the north Delta. In July 2018, Metropolitan’s Board approved Metropolitan’s funding in the aggregate of up to 64.6 percent of the overall capital cost of the California WaterFix.

On April 29, 2019, Governor Newsom issued an executive order directing identified State agencies to develop a comprehensive statewide strategy to build a climate-resilient water system, directing the State agencies to inventory and assess the current planning for modernizing conveyance through the Bay-Delta with a new single tunnel project. Following the Governor’s executive order, in May 2019, DWR withdrew approval of the California WaterFix project and decertified the EIR. In August 2019, DWR rescinded the last permit application associated with the project. Consistent with the Governor’s direction, the formal environmental review process for a proposed single tunnel Delta Conveyance Project commenced with the issuance by DWR of a Notice of Preparation under CEQA on January 15, 2020. The new conveyance facilities being reviewed would include intake structures on the Sacramento River, with a total capacity of 6,000 cfs, and a single tunnel to convey water to the existing pumping plants in the south Delta. Planning, environmental review and conceptual design work by DWR is expected to be completed in the 2023-2024 timeframe.

On August 20, 2020, the U.S. Army Corps of Engineers, the lead agency for the Delta Conveyance Project under NEPA, issued a notice of intent of the development of the environmental impact statement for the Delta Conveyance Project. The draft environmental impact statement is currently anticipated to be available for public review and comment in mid-2021.

Metropolitan’s Board has previously authorized Metropolitan’s participation in two joint powers agencies relating to a Bay-Delta conveyance project (originally formed in connection with California WaterFix): the Delta Conveyance Design and Construction Authority (the “DCA”), formed by the participating water agencies to actively participate with DWR in the design and construction of the conveyance project in coordination with DWR and under the control and supervision of DWR; and the Delta

Conveyance Finance Authority (the “Financing JPA”), formed by the participating water agencies to facilitate financing for the conveyance project. The DCA is providing engineering and design activities to support the DWR’s planning and environmental analysis for the potential new Delta Conveyance Project.

In August 2020, the DCA released preliminary cost information for the proposed Delta Conveyance Project based on an early cost assessment prepared by the DCA. The DCA’s early assessment is based on preliminary engineering, not a full conceptual engineering report, and includes project costs for construction, management, oversight, mitigation, planning, soft costs, and contingencies. Based on these assumptions, the DCA’s early assessment estimated a project cost of approximately \$15.9 billion in 2020 non-discounted dollars, which includes a 44 percent overall contingency applied to the preliminary construction costs.

Approximately \$340.7 million of investment is estimated to be needed over four years (2021 through 2024) to fund planning and pre-construction costs for the proposed Delta Conveyance Project. At its December 8, 2020 Board meeting, Metropolitan’s Board authorized the General Manager to execute a funding agreement with DWR and commit funding for a Metropolitan participation level of 47.2 percent of such costs of preliminary design, environmental planning and other pre-construction activities to assist in the environmental process for the proposed Delta Conveyance Project. Metropolitan’s 47.2 percent share amounts to an estimated funding commitment of \$160.8 million over the four years 2021 through 2024. Eighteen other State Water Contractors also have approved funding a share of the planning and pre-construction costs. Similar to prior agreements for BDCP and California WaterFix, the funding agreement provides that funds would be reimbursed to Metropolitan if the project is approved and when the first bonds, if any, for the project are issued. In connection with approving the funding agreement, at its December 2020 Board meeting, the Board also authorized the General Manager to execute an amendment to the DCA joint exercise of powers agreement. The amendment was developed to address changes in the anticipated participation structure for the proposed Delta Conveyance Project from that contemplated for California WaterFix.

Metropolitan’s December 8, 2020 action to approve fund planning and pre-construction costs does not commit Metropolitan to participate in the Delta Conveyance Project. Any final decision to commit to the project and incur final design and construction costs would require Board approval following completion of the environmental review for the proposed Delta Conveyance Project, which is not expected to occur until 2024 or later.

On August 6, 2020, DWR adopted certain resolutions to authorize the issuance of bonds to finance costs of Delta Conveyance Project environmental review, planning, design and, if and when such a project is approved, the costs of acquisition and construction thereof. The same day, it filed a complaint in Sacramento County Superior Court seeking to validate its authority to issue the bonds. Fourteen answers have been filed in the validation action, and one related case was filed in the same court alleging that DWR violated CEQA by adopting the bond resolutions before completing environmental review of the Delta Conveyance Project. Additional lawsuits could be filed in the future with respect to any new Bay-Delta conveyance project and may impact the anticipated timing and costs of any proposed new single tunnel Delta Conveyance Project.

Colorado River Aqueduct

Background

The Colorado River was Metropolitan’s original source of water after Metropolitan’s establishment in 1928. Metropolitan has a legal entitlement to receive water from the Colorado River under a permanent service contract with the Secretary of the Interior. Water from the Colorado River and its tributaries is also available to other users in California, as well as users in the states of Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming (collectively, the “Colorado River Basin States”), resulting in both competition and the need for cooperation among these holders of Colorado River entitlements. In addition, under a 1944 treaty, Mexico has right to delivery of 1.5 million acre-feet of Colorado River water annually except as

provided under shortage conditions described in Treaty Minute 323. The United States and Mexico agreed to conditions for reduced deliveries of Colorado River water to Mexico in Treaty Minute 323, adopted in 2017. That Minute established the rules under which Mexico agreed to take shortages and create reservoir storage in Lake Mead. Those conditions are in parity with the requirements placed on the Lower Basin States (defined below) in the Lower Basin Drought Contingency Plan (described under “– Colorado River Operations: Surplus and Storage Guidelines – Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead” in this Appendix A). Mexico can also schedule delivery of an additional 200,000 acre-feet of Colorado River water per year if water is available in excess of the requirements in the United States and the 1.5 million acre-feet allotted to Mexico.

Construction of the CRA, which is owned and operated by Metropolitan, was undertaken by Metropolitan to provide for the transportation of its Colorado River water entitlement to its service area. The CRA originates at Lake Havasu on the Colorado River and extends approximately 242 miles through a series of pump stations and reservoirs to its terminus at Lake Mathews in Riverside County. Up to 1.25 million acre-feet of water per year may be conveyed through the CRA to Metropolitan’s member agencies, subject to availability of Colorado River water for delivery to Metropolitan as described below. Metropolitan first delivered CRA water to its member agencies in 1941.

Colorado River Water Apportionment and Seven-Party Agreement

Pursuant to the federal Boulder Canyon Project Act of 1928, California is apportioned the use of 4.4 million acre-feet of water from the Colorado River each year plus one-half of any surplus that may be available for use collectively in Arizona, California and Nevada (the “Lower Basin States”). Under an agreement entered into in 1931 among the California entities that expected to receive a portion of California’s apportionment of Colorado River water (the “Seven-Party Agreement”) and which has formed the basis for the distribution of Colorado River water made available to California, Metropolitan holds the fourth priority right to 550,000 acre-feet per year. This is the last priority within California’s basic apportionment. In addition, Metropolitan holds the fifth priority right to 662,000 acre-feet of water, which is in excess of California’s basic apportionment. Until 2003, Metropolitan had been able to take full advantage of its fifth priority right as a result of the availability of surplus water and water apportioned to Arizona and Nevada that was not needed by those states. However, during the 1990s Arizona and Nevada increased their use of water from the Colorado River, and by 2002 no unused apportionment was available for California. As a result, California has limited its annual use to 4.4 million acre-feet since 2003, not including supplies made available under water supply programs such as intentionally-created surplus and certain conservation and storage agreements. In addition, a severe drought in the Colorado River Basin from 2000-2004 reduced storage in system reservoirs, ending the availability of surplus deliveries to Metropolitan. Prior to 2003, Metropolitan could divert over 1.25 million acre-feet in any year. Since 2003, Metropolitan’s net diversions of Colorado River water have ranged from a low of 537,607 acre-feet in 2019 to a high of approximately 1,179,000 acre-feet in 2015. Preliminary average annual net diversions for 2011 through 2020 were 871,947 acre-feet, with annual volumes dependent primarily on programs to augment supplies, including transfers of conserved water from agriculture. See “– Quantification Settlement Agreement” and “– Colorado River Operations: Surplus and Shortage Guidelines.” See also “–Water Transfer, Storage and Exchange Programs – Colorado River Aqueduct Agreements and Programs.” In 2020, preliminary total available Colorado River supply was just over one million acre-feet. A portion of the available supply that was not diverted was stored in Lake Mead for future usage. See also “–Storage Capacity and Water in Storage.”

The following table sets forth the existing priorities of the California users of Colorado River water established under the 1931 Seven-Party Agreement.

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

Priority	Description	Acre-Feet Annually
1	Palo Verde Irrigation District gross area of 104,500 acres of land in the Palo Verde Valley	
2	Yuma Project in California not exceeding a gross area of 25,000 acres in California	
3(a)	Imperial Irrigation District and other lands in Imperial and Coachella Valleys ⁽²⁾ to be served by All-American Canal	
3(b)	Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	
4	Metropolitan Water District of Southern California for use on the coastal plain	550,000
SUBTOTAL		4,400,000
5(a)	Metropolitan Water District of Southern California for use on the coastal plain	550,000
5(b)	Metropolitan Water District of Southern California for use on the coastal plain ⁽³⁾	112,000
6(a)	Imperial Irrigation District and other lands in Imperial and Coachella Valleys to be served by the All-American Canal	
6(b)	Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	
TOTAL		5,362,000
7	Agricultural use in the Colorado River Basin in California	Remaining surplus

Source: Metropolitan.

- (1) Agreement dated August 18, 1931, among Palo Verde Irrigation District, Imperial Irrigation District, Coachella Valley County Water District, Metropolitan, the City of Los Angeles, the City of San Diego and the County of San Diego. These priorities were memorialized in the agencies' respective water delivery contracts with the Secretary of the Interior.
- (2) The Coachella Valley Water District serves Coachella Valley.
- (3) In 1946, the City of San Diego, the San Diego County Water Authority, Metropolitan and the Secretary of the Interior entered into a contract that merged and added the City and County of San Diego's rights to storage and delivery of Colorado River water to the rights of Metropolitan.

Quantification Settlement Agreement

The Quantification Settlement Agreement (“QSA”), executed by the Coachella Valley Water District (“CVWD”), Imperial Irrigation District (“IID”), Metropolitan, and others in October 2003, establishes Colorado River water use limits for IID and CVWD, and provides for specific acquisitions of conserved water and water supply arrangements. The QSA and related agreements provide a framework for Metropolitan to enter into other cooperative Colorado River supply programs and set aside several disputes among California’s Colorado River water agencies.

Specific programs under the QSA and related agreements include lining portions of the All-American and Coachella Canals, which were completed in 2009 and conserve over 98,000 acre-feet annually. Metropolitan receives this water and delivers over 77,000 acre-feet of exchange water annually to

the San Diego County Water Authority (“SDCWA”), and provides 16,000 acre-feet of water annually by exchange to the United States for use by the La Jolla, Pala, Pauma, Rincon and San Pasqual Bands of Mission Indians, the San Luis Rey River Indian Water Authority, the City of Escondido and the Vista Irrigation District. Water became available for exchange with the United States following a May 17, 2017 notice from the Federal Energy Regulatory Commission (“FERC”) satisfying the last requirement of Section 104 of the San Luis Rey Indian Water Rights Settlement Act (Title I of Public Law 100-675, as amended). The QSA and related agreements also authorized the transfer of conserved water annually by IID to SDCWA (up to a maximum expected amount in 2021 of 205,000 acre-feet, then stabilizing to 200,000 acre-feet per year). Metropolitan also receives this water and delivers an equal amount of exchange water annually to SDCWA. See description under “— Metropolitan and San Diego County Water Authority Exchange Agreement” below; see also “METROPOLITAN REVENUES—Principal Customers” in this Appendix A. Also included under the QSA related agreements is a delivery and exchange agreement between Metropolitan and CVWD that provides for Metropolitan, when requested, to deliver annually up to 35,000 acre-feet of Metropolitan’s State Water Project contractual water to CVWD by exchange with Metropolitan’s available Colorado River supplies.

Metropolitan and San Diego County Water Authority Exchange Agreement

No facilities exist to deliver conserved water acquired by SDCWA from IID and water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals. See “— Quantification Settlement Agreement.” Accordingly, in 2003, Metropolitan and SDCWA entered into an exchange agreement (the “Exchange Agreement”), pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water SDCWA receives under the QSA related agreements. Metropolitan delivers an equal volume of water from its own sources of supply through its delivery system to SDCWA. The Exchange Agreement limits the amount of water that Metropolitan delivers to 277,700 acre-feet per year, except that an additional 5,000 acre-feet and an additional 2,500 acre-feet will be exchanged in years 2021 and 2022, respectively. In consideration for the conserved water made available to Metropolitan by SDCWA, SDCWA pays the agreement price for the exchange water delivered by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan’s Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan’s facilities. See “METROPOLITAN REVENUES—Litigation Challenging Rate Structure” in this Appendix A for a description of Metropolitan’s charges for the conveyance of water through Metropolitan’s facilities and litigation in which SDCWA is challenging such charges. The term of the Exchange Agreement, as it relates to conserved water transferred by IID to SDCWA, extends through 2047, and as it relates to water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals, extends through 2112; subject, in each case, to the right of SDCWA, upon a minimum of five years’ advance written notice to Metropolitan, to permanently reduce the aggregate quantity of conserved water made available to Metropolitan under the Exchange Agreement to the extent SDCWA decides continually and regularly to transport such conserved water to SDCWA through alternative facilities (which do not presently exist). In 2020, preliminary estimates of water delivered to Metropolitan by SDCWA for exchange was approximately 269,700, consisting of 192,000 acre-feet of IID conservation plus 77,700 acre-feet of conserved water from the Coachella Canal and All-American Canal lining projects.

Colorado River Operations: Surplus and Shortage Guidelines

General. The Secretary of the Interior is vested with the responsibility of managing the mainstream waters of the lower Colorado River pursuant to federal law. Each year, the Secretary of the Interior is required to declare the Colorado River water supply availability conditions for the Lower Basin States in terms of “normal,” “surplus” or “shortage” and has adopted operations criteria in the form of guidelines to determine the availability of surplus or potential shortage allocations among the Lower Basin States and reservoir operations for such conditions.

Interim Surplus Guidelines. In January 2001, the Secretary of the Interior adopted guidelines (the “Interim Surplus Guidelines”), initially for use through 2016, in determining the availability and quantity of surplus Colorado River water available for use in California, Arizona and Nevada. The Interim Surplus Guidelines were amended in 2007 and now extend through 2026. The purpose of the Interim Surplus Guidelines was to provide mainstream users of Colorado River water, particularly those in California and Nevada who had been utilizing surplus flows, a greater degree of predictability with respect to the availability and quantity of surplus water. Under the Interim Surplus Guidelines, Metropolitan initially expected to divert up to 1.25 million acre-feet of Colorado River water annually under foreseeable runoff and reservoir storage scenarios from 2004 through 2016. However, as described above, an extended drought in the Colorado River Basin reduced these initial expectations, and Metropolitan has not received any surplus water since 2002.

Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead. In May 2005, the Secretary of the Interior directed the Bureau of Reclamation to develop additional strategies for improving coordinated management of the reservoirs of the Colorado River system. In November 2007, the Bureau of Reclamation issued a Final EIS regarding new federal guidelines concerning the operation of the Colorado River system reservoirs, particularly during drought and low reservoir conditions. These guidelines provide water release criteria from Lake Powell and water storage and water release criteria from Lake Mead during shortage and surplus conditions in the Lower Basin, provide a mechanism for the storage and delivery of conserved system and non-system water in Lake Mead and extend the Interim Surplus Guidelines through 2026 (as noted above). The Secretary of the Interior issued the final guidelines through a Record of Decision signed in December 2007. The Record of Decision and accompanying agreement among the Colorado River Basin States protect reservoir levels by reducing deliveries during low inflow periods, encourage agencies to develop conservation programs and allow the Colorado River Basin States to develop and store new water supplies. The Colorado River Basin Project Act of 1968 insulates California from shortages in all but the most extreme hydrologic conditions. Consistent with these legal protections, under the guidelines, Arizona and Nevada are first subject to the initial annual shortages identified by the Secretary in a shared amount of up to 500,000 acre-feet.

The guidelines also created the Intentionally Created Surplus (“ICS”) program, which allows water contractors in the Lower Basin States to store conserved water in Lake Mead. Under this program, ICS water (water that has been conserved through an extraordinary conservation measure, such as land fallowing) is eligible for storage in Lake Mead by Metropolitan. ICS can be created through 2026 and delivered through 2036. See the table entitled “Metropolitan’s Water Storage Capacity and Water in Storage” under “–Storage Capacity and Water in Storage.” Under the guidelines and the Colorado River Drought Contingency Plan Authorization Act, California is able to create and deliver up to 400,000 acre-feet of extraordinary conservation ICS (“EC ICS”) annually and accumulate up to 1.7 million acre-feet of EC ICS in Lake Mead. In December 2007, California contractors for Colorado River water executed the California Agreement for the Creation and Delivery of Extraordinary Conservation Intentionally Created Surplus (the “California ICS Agreement”), which established terms and conditions for the creation, accumulation, and delivery of EC ICS by California contractors receiving Colorado River water. Under the California ICS Agreement, the State’s EC ICS creation, accumulation, and delivery limits provided to California under the 2007 Interim Surplus Guidelines are apportioned between IID and Metropolitan. No other California contractors were permitted to create or accumulate ICS. Under the terms of the agreement, IID is allowed to store up to 25,000 acre-feet per year of EC ICS in Lake Mead with a cumulative limit of 50,000 acre-feet. Metropolitan is permitted to use the remaining available EC ICS creation, delivery, and accumulation limits provided to California.

The Secretary of the Interior delivers the stored ICS water to Metropolitan in accordance with the terms of December 13, 2007, January 6, 2010, and November 20, 2012 Delivery Agreements between the United States and Metropolitan. As of January 1, 2021, Metropolitan had an estimated 1,294,000 acre-feet in its ICS accounts. These ICS accounts include water conserved by fallowing in the Palo Verde Valley,

projects implemented with IID in its service area, groundwater desalination, the Warren H. Brock Reservoir Project, and international agreements that converted water conserved by Mexico to the United States.

Since the 2007 Lower Basin shortage guidelines were issued for the coordinated operations of Lake Powell and Lake Mead, the Colorado River has continued to experience drought conditions. The seven Colorado River Basin States, the U.S. Department of Interior through the Bureau of Reclamation, and water users in the Colorado River basin, including Metropolitan, began developing Drought Contingency Plans (“DCPs”) to reduce the risk of Lake Powell and Lake Mead declining below critical elevations through 2026.

In April 2019, the President signed legislation directing the Secretary of the Interior to sign and implement four DCP agreements related to the Upper and Lower Basin DCPs without delay. The agreements were executed and the Upper and Lower Basin DCPs became effective on May 20, 2019. The Lower Basin Drought Contingency Plan Agreement requires California, Arizona and Nevada to store defined volumes of water in Lake Mead at specified lake levels. California would begin making contributions if Lake Mead’s elevation is projected to be 1,045 feet above sea level or below on January 1. Lake Mead elevation in January 2021 was 1,084 feet. Depending on the lake’s elevation, California’s contributions would range from 200,000 to 350,000 acre-feet a year (“DCP Contributions”). Pursuant to intrastate implementation agreements, Metropolitan will be responsible for 93 percent of California’s DCP Contributions under the Lower Basin DCP. CVWD will be responsible for 7 percent of California’s required DCP Contributions.

Implementation of the Lower Basin DCP enhances Metropolitan’s ability to store water in Lake Mead and ensures that water in storage can be delivered at a later date. The Lower Basin DCP increases the total volume of water that California may store in Lake Mead by 200,000 acre-feet, which Metropolitan will have the right to use. Water stored as ICS will be available for delivery as long as Lake Mead’s elevation remains above 1,025 feet. Previously, that water would likely have become inaccessible below a Lake Mead elevation of 1,075 feet. DCP Contributions may be made through conversion of existing ICS. These types of DCP Contributions become DCP ICS. DCP Contributions may also be made by leaving water in Lake Mead that there was a legal right to have delivered. This type of DCP Contribution becomes system water and may not be recovered. Rules are set for delivery of DCP ICS through 2026 and between 2027-2057.

The Lower Basin DCP will be effective through 2026. Before the DCP and 2007 Lower Basin shortage guidelines terminate in 2026, the U.S. Department of Interior through the Bureau of Reclamation, the seven Colorado River Basin States, and water users in the Colorado River basin, including Metropolitan, will begin work on the development of new shortage guidelines for the management and operation of the Colorado River.

On April 22, 2019, Metropolitan was served notice of a CEQA lawsuit filed by IID against Metropolitan. In this lawsuit, IID is seeking to vacate Metropolitan’s Board actions taken on December 11, 2018 and March 12, 2019 authorizing Metropolitan’s entering into the agreements implementing the Lower Basin DCP under CEQA and to block Metropolitan from implementing the Lower Basin DCP and any related agreements. The trial for this matter occurred on January 4, 2021. On January 5, 2021, the court issued its final order denying IID’s writ petition. In its ruling, the court held that IID’s petition was barred because IID did not exhaust its administrative remedies. The court further found that Metropolitan provided adequate public notice of the grounds of its CEQA exemption determination and that substantial evidence supported such determination. On April 12, 2021, IID appealed the court’s ruling denying its petition. Metropolitan is unable to assess at this time the likelihood of success of this litigation, or of any future claims, or their potential effect on future implementation of the Lower Basin DCP or the development of new shortage guidelines for the management and operation of the Colorado River.

Related Litigation–Navajo Nation Suit. The Navajo Nation filed litigation against the Department of the Interior, specifically the Bureau of Reclamation and the Bureau of Indian Affairs, in 2003, alleging that the Bureau of Reclamation has failed to determine the extent and quantity of the water rights of the Navajo

Nation in the Colorado River and that the Bureau of Indian Affairs has failed to otherwise protect the interests of the Navajo Nation. The complaint challenges the adequacy of the environmental review for the Interim Surplus Guidelines (described under “–Colorado River Operations: Surplus and Shortage Guidelines – Interim Surplus Guidelines”) and seeks to prohibit the Department of the Interior from allocating any “surplus” water until such time as a determination of the rights of the Navajo Nation is completed. Metropolitan and other California water agencies filed motions to intervene in this action. In October 2004 the court granted the motions to intervene and stayed the litigation to allow negotiations among the Navajo Nation, federal defendants, Central Arizona Water Conservation District (“CAWCD”), State of Arizona and Arizona Department of Water Resources. After years of negotiations, a tentative settlement was proposed in 2012 that would provide the Navajo Nation with specified rights to water from the Little Colorado River and groundwater basins under the reservation, along with federal funding for development of water supply systems on the tribe’s reservation. The proposed agreement was rejected by tribal councils for both the Navajo and the Hopi, who were seeking to intervene. On May 16, 2013, the stay of proceedings was lifted. On June 3, 2013, the Navajo Nation moved for leave to file a first amended complaint, which the court granted on June 27, 2013. The amended complaint added a legal challenge to the Lower Basin Shortage Guidelines adopted by the Secretary of the Interior in 2007 that allow Metropolitan and other Colorado River water users to store water in Lake Mead (described under “– Colorado River Operations: Surplus and Shortage Guidelines – Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead”). Metropolitan has used these new guidelines to store over 1,000,000 acre-feet of water in Lake Mead, a portion of which has been delivered, and the remainder of which may be delivered at Metropolitan’s request in future years. On July 22, 2014, the district court dismissed the lawsuit in its entirety, ruling that the Navajo Nation lacked standing and that the claim was barred against the federal defendants. The district court denied a motion by the Navajo Nation for leave to amend the complaint further after the dismissal. On September 19, 2014, the Navajo Nation appealed the dismissal of its claims related to the Interim Surplus Guidelines, the Lower Basin Shortage Guidelines, and breach of the federal trust obligation to the tribe. On December 4, 2017, the Ninth Circuit Court of Appeals held that the Navajo Nation lacked standing for its National Environmental Policy Act claims, but that the breach of trust claim was not barred against the federal defendants.

The matter was remanded to the district court in January 2018 to consider the Navajo Nation’s breach of trust claim on its merits. The Navajo Nation sought leave to file an amended complaint on its breach of trust claim twice. On August 23, 2019, the district court issued its order denying the motion to amend, entered judgment against the Navajo Nation, and dismissed the action. On October 18, 2019, the Navajo Nation filed its notice of appeal in the Ninth Circuit. The Navajo Nation filed its opening brief on February 26, 2020. Defendants and Intervenors answering briefs were due April 27, 2020. Metropolitan filed a joint answering brief with several other Defendant-Intervenors, including, among others, the State of Arizona, the State of Nevada, CVWD, and IID. The case was fully briefed as of July 1, 2020. Oral argument was held on October 16, 2020 before the Ninth Circuit. No ruling has yet been issued. Metropolitan is unable to assess at this time the likelihood of success of this litigation or any future claims, or their potential effect on Colorado River water supplies.

Endangered Species Act and Other Environmental Considerations

Endangered Species Act Considerations - State Water Project

General. DWR has altered the operations of the State Water Project to accommodate species of fish listed as threatened or endangered under the federal Endangered Species Act (“ESA”) and/or California ESA. Currently, three species (the winter-run and spring-run Chinook salmon and the Delta smelt) are listed under both ESAs. The Central Valley steelhead, the North American green sturgeon and the killer whale are listed under the federal ESA, and the Longfin smelt is listed as a threatened species under the California ESA.

The federal ESA requires that before any federal agency authorizes, funds, or carries out an action that may affect a listed species or designated critical habitat, it must consult with the appropriate federal

fishery agency (either the National Marine Fisheries Service (“NMFS”) or the U.S. Fish and Wildlife Service (“USFWS”) depending on the species) to determine whether the action would jeopardize the continued existence of any threatened or endangered species, or adversely modify habitat critical to the species’ needs. The result of the consultation is known as a “biological opinion.” In a biological opinion, a federal fishery agency determines whether the action would cause jeopardy to a threatened or endangered species or adverse modification to critical habitat; and if jeopardy or adverse modification is found, recommends reasonable and prudent alternatives that would allow the action to proceed without causing jeopardy or adverse modification. If no jeopardy or adverse modification is found, the fish agency issues a “no jeopardy opinion.” The biological opinion also includes an “incidental take statement.” The incidental take statement allows the action to go forward even though it will result in some level of “take,” including harming or killing some members of the species, incidental to the agency action, provided that the agency action does not jeopardize the continued existence of any threatened or endangered species and complies with reasonable mitigation and minimization measures recommended by the federal fishery agency or as incorporated into the project description.

The California ESA generally requires an incidental take permit or consistency determination for any action that may cause take of a State-listed species of fish or wildlife. To issue an incidental take permit or consistency determination, the California Department of Fish and Wildlife (“CDFW”) must determine that the impacts of the authorized take will be minimized and fully mitigated and will not cause jeopardy.

On August 2, 2016, DWR and the Bureau of Reclamation requested that USFWS and NMFS reinitiate federal ESA consultation on the coordinated operations of the State Water Project and the federal Central Valley Project to update them with the latest best available science and lessons learned operating under the prior 2008 and 2009 biological opinions. In January 2019, the Bureau of Reclamation submitted the initial biological assessment to USFWS and NMFS. The biological assessment contains a description of the Bureau of Reclamation’s and DWR’s proposed long-term coordinated operations plan (the “2019 Long-Term Operations Plan”). On October 22, 2019, USFWS and NMFS issued new federal biological opinions (the “2019 biological opinions”) that provide incidental take coverage for the 2019 Long-Term Operations Plan. On February 18, 2020, the Bureau of Reclamation signed a Record of Decision, pursuant to the National Environmental Policy Act, completing its environmental review and adopting the 2019 Long-Term Operations Plan.

The 2019 Long-Term Operations Plan incorporates and updates many of the requirements contained in the previous 2008 and 2009 biological opinions. It also includes over \$1 billion over a ten-year period in conservation, monitoring and new science, some of which is in the form of commitments carried forward from the previous biological opinions. Those costs are shared by the State Water Project and the federal Central Valley Project. The prior 2008 and 2009 biological opinions resulted in an estimated reduction in State Water Project deliveries of 0.3 million acre-feet during critically dry years to 1.3 million acre-feet in above normal water years as compared to the previous baseline. The 2019 Long-Term Operations Plan and 2019 biological opinions are expected to increase State Water Project deliveries by an annual average of 200,000 acre-feet as compared to the previous biological opinions.

On December 2, 2019, a group of non-governmental organizations, including commercial fishing groups and the Natural Resources Defense Council (the “NGOs”), sued USFWS and NMFS, alleging the 2019 biological opinions were arbitrary and capricious, later amending the lawsuit to include claims under the federal ESA and the National Environmental Policy Act related to decisions made by the Bureau of Reclamation. On February 20, 2020, the California Natural Resources Agency (“Natural Resources”), the California Environmental Protection Agency, and the California Attorney General (collectively, the “State Petitioners”) sued the federal agencies, making similar allegations. The State Water Contractors intervened in both cases to defend the 2019 biological opinions. The NGOs filed for a temporary restraining order on April 2, 2020, which the court overruled. The NGOs and the State Petitioners filed a preliminary injunction seeking a court order imposing interim operations consistent with the prior 2008 and 2009 biological

opinions pending rulings on the merits of plaintiffs' challenges to the two 2019 biological opinions. On May 11, 2020, the court granted, in part, the motions for preliminary injunction, thereby requiring the Central Valley Project to operate to one of the reasonable and prudent alternatives (referred to as the "inflow-to-export ratio") in the 2009 biological opinion through May 31, 2020. DWR is not a party in this litigation, and other legal requirements governed the operation of the State Water Project during the relevant time period in May 2020, and therefore the State Water Project was not impacted by this order. USFWS and NMFS have produced their respective administrative records. Once the administrative records are finalized, the parties anticipate stipulating to a briefing schedule to resolve the merits of the cases. Metropolitan is unable to predict the outcome of any litigation relating to the federal 2019 biological opinions or any potential effect on Metropolitan's State Water Project water supplies.

On January 20, 2021, President Biden issued an Executive Order on Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis (the "President's Executive Order on Public Health and the Environment") directing all executive departments and agencies to immediately review, and, as appropriate and consistent with applicable law, take action to address the promulgation of Federal regulations and other actions during the last four years for consistency with the new administration's policies. Among numerous actions identified for review, the United States Department of Commerce and United States Department of Interior heads were directed to review the 2019 biological opinions. At this point it is unclear if the review will result in any changes to the 2019 biological opinions.

As described above, operations of the State Water Project require both federal ESA and California ESA authorizations. DWR described and analyzed its proposed State Water Project long-term operations plan for purposes of obtaining a new California ESA permit in its November 2019 Draft EIR under CEQA. Its 2019 Draft EIR proposed essentially the same operations plan as for the federal 2019 biological opinions, with the addition of operations for the State-only listed species, Longfin smelt. In December 2019, DWR submitted its application for an incidental take permit under the California ESA to CDFW, with a modified State operations plan that added new outflow and environmental commitments. On March 27, 2020, DWR released its final EIR and Notice of Determination, describing and adopting a State operations plan with additional operational restrictions and additional conservation commitments. On March 31, 2020, CDFW issued an incidental take permit for the State Water Project that included further operational restrictions and outflow. As issued, the incidental take permit reduces State Water Project deliveries by more than 200,000 acre-feet on average annually, and adds another \$218 million over a ten-year period in environmental commitments for the State Water Project.

On April 28, 2020, Metropolitan and Mojave jointly sued CDFW and DWR, and Natural Resources, alleging that the new California ESA permit and Final EIR violate CEQA and the California ESA. Metropolitan and Mojave also allege that DWR breached the State Water Contract and the implied covenant of good faith and fair dealing by, among other things, accepting an incidental take permit containing mitigation requirements in excess of that required by law. Subsequently, CVWD, San Gorgonio Pass Water Agency (both State Water Contractors), and Municipal Water District of Orange County (a Metropolitan member agency) joined with Metropolitan and Mojave in a first amended complaint. The State Water Contractors and the Kern County Water Agency also filed CEQA and CESA actions, in which the Antelope Valley-East Kern Water Agency, Central Coast Water Authority, Dudley Ridge Water District, County of Kings, Oak Flat Water District, Palmdale Water District, Santa Clarita Valley Water Agency, San Gabriel Valley Municipal Water District, and Tulare Lake Basin Water Storage District subsequently joined in a first amended complaint in which the individual water contractors allege causes of action for breach of contract and the implied covenant of good faith and fair dealing. In addition, another State Water Contractor, the San Bernardino Valley Municipal Water District, filed a complaint alleging violations of CEQA and CESA, as well as breach of contract and the implied covenant of good faith and fair dealing, unconstitutional takings, and anticipatory repudiation of contract. Several federal Central Valley Project water contractors also filed a CEQA challenge. Four other lawsuits have been filed by certain commercial fishing groups and a tribe, several environmental groups, and two in-Delta water agencies challenging the Final EIR as inadequate

under CEQA and alleging violations of the Delta Reform Act, public trust doctrine and, in one of the cases, certain water right statutes. All eight cases have been coordinated in Sacramento County Superior Court, and a stay on discovery was issued until a coordination trial judge was assigned and addresses the stay. On May 7, 2021 the coordination trial judge ordered the CEQA and CESA causes of action as well as certain other administrative record-based claims alleged by petitioners in several other cases bifurcated from the State Water Contractors' respective contractual and unconstitutional takings causes of action, with the CEQA and CESA causes of action to be tried first. The court also ordered that the discovery stay remain in place pending final resolution of the CEQA, CESA and other administrative record claims. Metropolitan is unable to assess at this time the likelihood of success of any litigation relating to the California ESA permit, including any future litigation or any future claims that may be filed, or any potential effect on Metropolitan's State Water Project water supplies.

Endangered Species Act Considerations - Colorado River

Federal and state environmental laws protecting fish species and other wildlife species have the potential to affect Colorado River operations. A number of species that are on either "endangered" or "threatened" lists under the ESAs are present in the area of the Lower Colorado River, including among others, the bonytail chub, razorback sucker, southwestern willow flycatcher and Yuma clapper rail. To address this issue, a broad-based state/federal/tribal/private regional partnership that includes water, hydroelectric power and wildlife management agencies in Arizona, California and Nevada have developed a multi-species conservation program for the main stem of the Lower Colorado River (the Lower Colorado River Multi-Species Conservation Program or "MSCP"). The MSCP allows Metropolitan to obtain federal and state permits for any incidental take of protected species resulting from current and future water and power operations of its Colorado River facilities and to minimize any uncertainty from additional listings of endangered species. The MSCP also covers operations of federal dams and power plants on the river that deliver water and hydroelectric power for use by Metropolitan and other agencies. The MSCP covers 27 species and habitat in the Lower Colorado River from Lake Mead to the Mexican border for a term of 50 years (commencing in 2005). Over the 50-year term of the program, the total cost to Metropolitan will be about \$88.5 million (in 2003 dollars), and annual costs will range between \$0.8 million and \$4.7 million (in 2003 dollars).

Invasive Species - Mussel Control Programs

Zebra and quagga mussels are established in many regions of the United States. Mussels can reproduce quickly and, if left unmanaged, can reduce flows by clogging intakes and raw water conveyance systems, alter or destroy fish habitats, and affect lakes and beaches. Mussel management activities may require changes in water delivery protocols to reduce risks of spreading mussel populations, and increase operation and maintenance costs.

In January 2007, quagga mussels were discovered in Lake Mead. All pipelines and facilities that transport raw Colorado River water are considered to be infested with quagga mussels. Metropolitan has a quagga mussel control plan, approved by the CDFW to address the presence of mussels in the CRA system and limit further spread of mussels. Year-round monitoring for mussel larvae is conducted at various locations in the CRA system and at select non-infested areas of Metropolitan's system and some locations in the State Water Project. Shutdown inspections have demonstrated that control activities effectively limit mussel infestation in the CRA and prevent the further spread of mussels to other bodies of water and water systems. Metropolitan's costs for controlling quagga mussels in the CRA system has been approximately \$5 million per year.

Established mussel populations are located within ten miles of the State Water Project. A limited number of mussels have also been detected in State Water Project supplies but there is currently no evidence of established mussel populations, nor have they impacted Metropolitan's State Water Project deliveries. To prevent the introduction and further spread of mussels into the State Water Project, the Bay-Delta, and other

uninfested bodies of water and water systems, DWR has also developed quagga mussel control plans and has partnered with other State and federal agencies on a number of related activities. Metropolitan coordinates mussel monitoring and control activities with these agencies.

Water Transfer, Storage and Exchange Programs

General

To supplement its State Water Project and Colorado River water supplies, Metropolitan has developed and actively manages a portfolio of water supply programs, including water transfer, storage and exchange agreements, the supplies created by which are conveyed through the California Aqueduct of the State Water Project, utilizing Metropolitan's rights under its State Water Contract to use the portion of the State Water Project conveyance system necessary to deliver water to it, or through available CRA capacity. Consistent with its IRP, Metropolitan will continue to pursue voluntary water transfer and exchange programs with State, federal, public and private water districts and individuals to help mitigate supply/demand imbalances and provide additional dry-year supply sources. A summary description of certain of Metropolitan's supply programs are set forth below. In addition to the arrangements described below, Metropolitan is entitled to storage and access to stored water in connection with various other storage programs and facilities. See “—Colorado River Aqueduct” above, as well as the table entitled “Metropolitan’s Water Storage Capacity and Water in Storage” under “—Storage Capacity and Water in Storage” below.

State Water Project Agreements and Programs

In addition to the basic State Water Project contract provisions, Metropolitan has other contract rights that accrue to the overall value of the State Water Project. Because each Contractor is paying for physical facilities, they also have the right to use the facilities to move water supplies associated with agreements, water transfers and water exchanges. Metropolitan has entered into agreements and exchanges that provide additional water supplies.

Existing and potential water transfers and exchanges are an important element for improving the water supply reliability within Metropolitan’s service area and accomplishing the reliability goal set by Metropolitan’s Board. California’s agricultural activities consume approximately 34 million acre-feet of water annually, which is approximately 80 percent of the total water used in the State for agricultural and urban uses and 40 percent of the water used for all consumptive uses, including environmental demands. Voluntary water transfers and exchanges with agricultural users can make a portion of this agricultural water supply available to support the State’s urban areas. The portfolio of supplemental supplies that Metropolitan has developed to be conveyed through the California Aqueduct extend from north of the Bay-Delta to Southern California. Certain of these arrangements are also described below.

Castaic Lake and Lake Perris. Metropolitan has contractual rights to withdraw up to 65,000 acre-feet of water in Lake Perris (East Branch terminal reservoir) and 153,940 acre-feet of water in Castaic Lake (West Branch terminal reservoir). This storage provides Metropolitan with additional options for managing State Water Project deliveries to maximize yield from the project. Any water used must be returned to the State Water Project within five years or it is deducted from allocated amounts in the sixth year.

Metropolitan Article 56 Carryover. Metropolitan has the right to store its allocated contract amount for delivery in subsequent years. Metropolitan can store between 100,000 and 200,000 acre-feet, depending on the final water supply allocation percentage.

Yuba River Accord. Metropolitan entered into an agreement with DWR in December 2007 to purchase a portion of the water released by the Yuba County Water Agency (“YCWA”). YCWA was involved in a SWRCB proceeding in which it was required to increase Yuba River fishery flows. Within the framework of agreements known as the Yuba River Accord, DWR entered into an agreement for the long-term purchase of water from YCWA. The agreement permits YCWA to transfer additional supplies at its

discretion. Metropolitan, other State Water Contractors, and the San Luis & Delta-Mendota Water Authority entered into separate agreements with DWR for the purchase of portions of the water made available. Metropolitan's agreement allows Metropolitan to purchase, in dry years through 2025, available water supplies which have ranged from approximately 6,555 acre-feet to 67,068 acre-feet per year.

In addition to water made available under the Yuba River Accord, Metropolitan has developed groundwater storage agreements that allow Metropolitan to store available supplies in the Central Valley for return later. See "METROPOLITAN'S WATER DELIVERY SYSTEM—Water Quality and Treatment" in this Appendix A for information regarding recent water quality regulations and developments that impact or may impact certain of Metropolitan's groundwater storage programs.

Metropolitan has also developed other groundwater storage and exchange programs, certain of which are described below.

Arvin-Edison/Metropolitan Water Management Program. In December 1997, Metropolitan entered into an agreement with the Arvin-Edison Water Storage District ("Arvin-Edison"), an irrigation agency located southeast of Bakersfield, California. Under the program, Arvin-Edison stores water on behalf of Metropolitan. In January 2008, Metropolitan and Arvin-Edison amended the agreement to enhance the program's capabilities and to increase the delivery of water to the California Aqueduct. To facilitate the program, new wells, spreading basins and a return conveyance facility connecting Arvin-Edison's existing facilities to the California Aqueduct have been constructed. The agreement also provides Metropolitan priority use of Arvin-Edison's facilities to convey high-quality water available on the east side of the San Joaquin Valley to the California Aqueduct. Up to 350,000 acre-feet of Metropolitan's water may be stored and Arvin-Edison is obligated to return up to 75,000 acre-feet of stored water in any year to Metropolitan, upon request. The agreement will terminate in 2035 unless extended. Metropolitan's estimated storage account balance under the Arvin-Edison/Metropolitan Water Management Program as of January 1, 2021 is shown in the table entitled "Metropolitan's Water Storage Capacity and Water in Storage" under "-Storage Capacity and Water in Storage" below. As a result of detecting 1,2,3-trichloropropane ("TCP") in Arvin-Edison wells, Metropolitan has temporarily suspended operation of the program until the water quality concerns can be further evaluated and managed.

Semitropic/Metropolitan Groundwater Storage and Exchange Program. In 1994, Metropolitan entered into an agreement with the Semitropic Water Storage District ("Semitropic"), located adjacent to the California Aqueduct north of Bakersfield, to store water in the groundwater basin underlying land within Semitropic. The minimum annual yield available to Metropolitan from the program is 39,700 acre-feet of water and the maximum annual yield is 231,200 acre-feet of water depending on the available unused capacity and the State Water Project allocation. Metropolitan's estimated storage account balance under the Semitropic program as of January 1, 2021 is shown in the table entitled "Metropolitan's Water Storage Capacity and Water in Storage" under "-Storage Capacity and Water in Storage" below.

Kern Delta Storage Program. Metropolitan entered into an agreement with Kern Delta Water District ("Kern Delta") in May 2003, for a groundwater banking and exchange transfer program to allow Metropolitan to store up to 250,000 acre-feet of State Water Contract water in wet years and to permit Metropolitan, at Metropolitan's option, a return of up to 50,000 acre-feet of water annually during hydrologic and regulatory droughts. Metropolitan's estimated storage account balance under this program as of January 1, 2021 is shown in the table entitled "Metropolitan's Water Storage Capacity and Water in Storage" under "-Storage Capacity and Water in Storage" below.

Mojave Storage Program. Metropolitan entered into a groundwater banking and exchange transfer agreement with Mojave Water Agency ("Mojave") in October 2003. The agreement allows for Metropolitan to store water in an exchange account for later return. The agreement allows Metropolitan to annually withdraw Mojave State Water Project contractual amounts, after accounting for local needs. Under a

100 percent allocation, the State Water Contract provides Mojave 82,800 acre-feet of water. This agreement was amended in 2011 to allow for the cumulative storage of up to 390,000 acre-feet. Metropolitan's estimated storage account balance under this program as of January 1, 2021 is shown in the table entitled "Metropolitan's Water Storage Capacity and Water in Storage" under "-Storage Capacity and Water in Storage" below.

Antelope Valley-East Kern Storage and Exchange Program. In 2016, Metropolitan entered into an agreement with the Antelope Valley-East Kern Water Agency ("AVEK"), the third largest State Water Contractor, to both exchange supplies and store water in the Antelope Valley groundwater basin. Under the exchange, AVEK would provide at least 30,000 acre-feet over ten years of its unused Table A State Water Project water to Metropolitan. For every two acre-feet provided to Metropolitan as part of the exchange, AVEK would receive back one acre-foot in the future. For the one acre-foot that is retained by Metropolitan, Metropolitan would pay AVEK under a set price schedule based on the State Water Project allocation at the time. Under this agreement, AVEK also provides Metropolitan up to 30,000 acre-feet of storage. Metropolitan's estimated storage account balance under this program as of January 1, 2021 is shown in the table entitled "Metropolitan's Water Storage Capacity and Water in Storage" under "-Storage Capacity and Water in Storage" below.

Antelope Valley-East Kern High Desert Water Bank Program. In 2019, Metropolitan entered into an agreement with AVEK for a groundwater banking program referred to as the High Desert Water Bank Program. The estimated costs of construction of the facilities to implement the program is \$131 million. Following completion of construction, which is expected to take approximately five years, Metropolitan would have the right to store up to 70,000 acre-feet per year of its unused Table A State Water Project water or other supplies in the Antelope Valley groundwater basin for later return. The maximum storage capacity for Metropolitan supplies would be 280,000 acre-feet. At Metropolitan's direction, up to 70,000 acre-feet of stored water annually would be available for return by direct pump back into the East Branch of the California Aqueduct. Upon completion, this program would provide additional flexibility to store and recover water for emergency or water supply needs through 2057.

San Gabriel Valley Municipal Water District and Other Exchange Programs. In 2013, Metropolitan entered into an agreement with the San Gabriel Valley Municipal Water District ("SGVMWD"). Under this agreement, Metropolitan delivers treated water to a SGVMWD subagency in exchange for twice as much untreated water in the groundwater basin. Metropolitan's member agencies can then use the groundwater supplies to meet their needs. Metropolitan can exchange and purchase at least 5,000 acre-feet per year. This program has the potential to increase Metropolitan's reliability by providing 115,000 acre-feet through 2035.

Other Ongoing Activities. Metropolitan has been negotiating, and will continue to pursue, water purchase, storage and exchange programs with other agencies in the Sacramento and San Joaquin Valleys. These programs involve the storage of both State Water Project supplies and water purchased from other sources to enhance Metropolitan's dry-year supplies and the exchange of normal year supplies to enhance Metropolitan's water reliability and water quality, in view of dry conditions and potential impacts from the ESA considerations discussed above under the heading "-Endangered Species Act and Other Environmental Considerations – Endangered Species Act Considerations – State Water Project." In April 2021, in light of the persistent dry hydrological conditions, the Board authorized the General Manager to secure up to 65,000 acre-feet of additional water supplies pursuant to one-year water transfers from water districts located north of the Sacramento-San Joaquin River Delta, at a maximum cost of up to \$44 million. If secured, the authorized water transfers would allow Metropolitan to preserve some water stored in surface water reservoirs on the State Water Project system for next year, should the critically dry pattern continue into 2022. As part of the Board authorization, the General Manager was granted final decision-making authority to determine whether or not to move forward with such water transfers following completion of any environmental reviews that may be required under CEQA.

The Sites Reservoir is a proposed reservoir project of approximately 1.3 to 1.5 million acre-feet, being analyzed by the Sites Reservoir Authority, to be located in Colusa County. The water stored in the proposed project would be diverted from the Sacramento River. As currently proposed, the Sites Reservoir project would have dedicated water storage and yield that would be used for fishery enhancement, water quality, and other environmental purposes. The proposed project could also provide additional water supply that could be used for dry-year benefits. Metropolitan is a member of the Sites Reservoir Committee, a group of 30 agencies that are participating in certain planning activities in connection with the proposed development of the project, including the development of environmental planning documents, a federal feasibility report and project permitting. In October 2020, Metropolitan's Board approved \$5.0 million in funding for Metropolitan's continued participation in such planning activities through the end of 2021. Metropolitan's agreement to participate in funding of this phase of project development activities does not commit Metropolitan to participate in any actual reservoir project that may be undertaken in the future.

Colorado River Aqueduct Agreements and Programs

Metropolitan has taken steps to augment its share of Colorado River water through agreements with other agencies that have rights to use such water, including through cooperative programs with other water agencies to conserve and develop supplies and through programs to exchange water with other agencies. These supplies are conveyed through the CRA. Metropolitan determines the delivery schedule of these supplies throughout the year based on changes in the availability of State Water Project and Colorado River water. Under certain of these programs, water may be delivered to Metropolitan's service area in the year made available or in a subsequent year as ICS water from Lake Mead storage. See “—Colorado River Aqueduct —Colorado River Operations: Surplus and Shortage Guidelines – Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead.”

IID/Metropolitan Conservation Agreement. Under a 1988 water conservation agreement, as amended in 2003 and 2007 (the “1988 Conservation Agreement”) between Metropolitan and IID, Metropolitan provided funding for IID to construct and operate a number of conservation projects that have conserved up to 109,460 acre-feet of water per year that has been provided to Metropolitan. As amended, the agreement’s initial term has been extended to at least 2041 or 270 days after the termination of the QSA. In 2019, 105,000 acre-feet of conserved water was made available by IID to Metropolitan. Under the QSA and related agreements, Metropolitan, at the request of CVWD, forgoes up to 20,000 acre-feet of this water each year for diversion by CVWD from the Coachella Canal. In each of 2018 and 2019, CVWD’s requests were for 0 acre-feet, leaving 105,000 acre-feet in 2018 and 2019 for Metropolitan. In December 2019, Metropolitan signed a revised agreement with CVWD in which CVWD will limit its annual request of water from this program to 15,000 acre-feet through 2026. See “—Colorado River Aqueduct —Quantification Settlement Agreement.”

Palo Verde Land Management, Crop Rotation and Water Supply Program. In August 2004, Metropolitan and PVID signed the program agreement for a Land Management, Crop Rotation and Water Supply Program. Under this program, participating landowners in the PVID service area are compensated for reducing water use by not irrigating a portion of their land. This program provides up to 133,000 acre-feet of water to be available to Metropolitan in certain years. The term of the program is 35 years. Fallowing began on January 1, 2005. The following table shows annual volumes of water saved and made available to Metropolitan during the 10 calendar years 2012 through 2021 under the Land Management, Crop Rotation and Water Supply Program with PVID:

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WATER AVAILABLE FROM PVID LAND MANAGEMENT, CROP ROTATION AND WATER SUPPLY PROGRAM

Calendar Year	Volume (acre-feet)
2012	73,700
2013	32,800
2014	43,000
2015	94,500
2016	125,400
2017	111,800
2018	95,800
2019	44,500
2020	43,900
2021	40,000 ⁽¹⁾

Source: Metropolitan.

⁽¹⁾ Estimate.

Bard Water District Seasonal Fallowing Program. In January 2020, Metropolitan and Bard Water District signed a seven-year agreement for a seasonal fallowing program. Under this program, each year farmers in Bard Water District have the opportunity to be compensated for reducing water use by not irrigating a portion of their land between April 1 and August 1 each year. During this period, farmers typically plant low-value, high water use crops, and this program incentivizes them to fallow the land instead. This program provides up to 6,300 acre-feet of water per year to be available to Metropolitan. The term of the program is through 2026, and during that time the water can either be delivered to Metropolitan or stored in Lake Mead as described below.

Lake Mead Storage Program. As described under “Colorado River Aqueduct –Colorado River Operations: Surplus and Shortage Guidelines – Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead,” Metropolitan has entered into agreements to set forth the guidelines under which ICS water is developed and stored in and delivered from Lake Mead. The amount of water stored in Lake Mead must be created through extraordinary conservation, system efficiency, tributary, imported, or binational conservation methods. Metropolitan has participated in projects to create ICS as described below:

Drop 2 (Warren H. Brock) Reservoir. In May 2008, Metropolitan provided \$28.7 million to join the CAWCD and the Southern Nevada Water Authority (“SNWA”) in funding the Bureau of Reclamation’s construction of an 8,000 acre-foot off-stream regulating reservoir near Drop 2 of the All-American Canal in Imperial County (officially named the Warren H. Brock Reservoir). Construction was completed in October 2010 and the Bureau of Reclamation refunded approximately \$3.71 million in unused contingency funds to Metropolitan. The Warren H. Brock Reservoir conserves about 70,000 acre-feet of water per year by capturing and storing water that would otherwise be lost from the system. In return for its funding, Metropolitan received 100,000 acre-feet of water that was stored in Lake Mead for its future use and has the ability to receive up to 25,000 acre-feet of water in any single year. Besides the additional water supply, the addition of the Warren H. Brock reservoir adds to the flexibility of Colorado River operations by storing underutilized Colorado River water orders caused by unexpected canal outages, changes in weather conditions, and high tributary runoff into the Colorado River. As of January 1, 2021, Metropolitan had taken delivery of 35,000 acre-feet of this water and had 65,000 acre-feet remaining in storage.

International Water Treaty Minutes 319 and 323. In November 2012, as part of the implementation of Minute 319, Metropolitan executed agreements in support of a program to augment Metropolitan’s Colorado River supply between 2013 through 2017 through an international pilot project in Mexico.

Metropolitan's total share of costs was \$5 million for 47,500 acre-feet of project supplies. In December 2013, Metropolitan and IID executed an agreement under which IID has paid half of Metropolitan's program costs, or \$2.5 million, in return for half of the project supplies, or 23,750 acre-feet. As such, 23,750 acre-feet of Intentionally Created Mexican Allocation was converted to Binational ICS and credited to Metropolitan's binational ICS water account in 2017. See “–Colorado River Aqueduct –Colorado River Operations: Surplus and Shortage Guidelines – Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead.” In September 2017, as part of the implementation of Minute 323, Metropolitan agreed to fund additional water conservations projects in Mexico that will yield approximately 24,000 acre-feet of additional supply for Metropolitan by 2026 at a cost of approximately \$3.3 million.

Storage and Interstate Release Agreement with Nevada. In May 2002, SNWA and Metropolitan entered into an Agreement Relating to Implementation of Interim Colorado River Surplus Guidelines, in which SNWA and Metropolitan agreed to the allocation of unused apportionment as provided in the Interim Surplus Guidelines and on the priority of SNWA for interstate banking of water in Arizona. SNWA and Metropolitan entered into a storage and interstate release agreement on October 21, 2004. Under this agreement, SNWA can request that Metropolitan store unused Nevada apportionment in California. The amount of water stored through 2014 under this agreement was approximately 205,000 acre-feet. In October 2015, SNWA and Metropolitan executed an additional amendment to the agreement under which Metropolitan paid SNWA approximately \$44.4 million and SNWA stored an additional 150,000 acre-feet with Metropolitan during 2015. Of that amount, 125,000 acre-feet has been added to SNWA's storage account with Metropolitan, increasing the total amount of water stored to approximately 330,000 acre-feet. In subsequent years, SNWA may request recovery of the stored water. When SNWA requests the return of any of the stored 125,000 acre-feet, SNWA will reimburse Metropolitan for an equivalent proportion of the \$44.4 million plus inflation based on the amount of water returned. SNWA has not yet requested the return of any of the water stored with Metropolitan and it is not expected that SNWA will request return of any of the stored water before 2022.

California ICS Agreement Intrastate Storage Provisions. As described under “–Colorado River Aqueduct –Colorado River Operations: Surplus and Shortage Guidelines – Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead,” in 2007, IID, Metropolitan and other Colorado River contractors in California executed the California ICS Agreement, which divided California's ICS storage space in Lake Mead between Metropolitan and IID. It also allowed IID to store up to 50,000 acre-feet of conserved water in Metropolitan's system. In 2015, the California ICS Agreement was amended to allow IID to store additional amounts of water in Metropolitan's system during 2015-2017. Under the 2015 amendment, IID was permitted to store up to 100,000 acre-feet per year of conserved water within Metropolitan's system with a cumulative limit of 200,000 acre-feet, for the three-year term. When requested by IID, Metropolitan has agreed to return to IID the lesser of either 50,000 acre-feet per year, or in a year in which Metropolitan's member agencies are under a shortage allocation, 50 percent of the cumulative amount of water IID has stored with Metropolitan under the 2015 amendment. IID currently has 162,000 acre-feet of water stored with Metropolitan pursuant to the terms of the California ICS Agreement.

In 2018, IID had reached the limit on the amount of water it was able to store in Metropolitan's system under the California ICS Agreement, and entered into discussions with Metropolitan to further amend the agreement, but no such agreement was reached. On December 4, 2020, IID filed a complaint against Metropolitan alleging that Metropolitan breached the California ICS Agreement, breached the implied covenant of good faith and fair dealing, and that Metropolitan converted IID's intentionally created surplus for its own use. IID's complaint seeks the imposition of a constructive trust over 87,594 acre-feet of water in Lake Mead or Metropolitan's system and a judgment against Metropolitan for \$20,896,640. Metropolitan is unable to assess at this time the likelihood of success of this litigation.

State Water Project and Colorado River Aqueduct Arrangements

Metropolitan/CVWD/Desert Water Agency Amended and Restated Agreement for the Exchange and Advance Delivery of Water. Metropolitan has agreements with CVWD and the Desert Water Agency (“DWA”) under which Metropolitan exchanges its Colorado River water for the agencies’ State Water Project contractual water and other State Water Project water acquisitions on an annual basis. Because CVWD and DWA do not have a physical connection to the State Water Project, Metropolitan takes delivery of CVWD’s and DWA’s State Water Project supplies and delivers a like amount of Colorado River water to the agencies. In accordance with these agreements, Metropolitan may deliver Colorado River water in advance of receiving State Water Project supplies to these agencies for storage in the Upper Coachella Valley groundwater basin. In years when it is necessary to augment available supplies to meet local demands, Metropolitan may meet the exchange delivery obligation through drawdowns of the advance delivery account, in lieu of delivering Colorado River water in that year. Metropolitan’s estimated storage account under the CVWD/DWA program as of January 1, 2021 is shown in the table entitled “Metropolitan’s Water Storage Capacity and Water in Storage” under “–Storage Capacity and Water in Storage” below. In addition to the storage benefits of the CVWD/DWA program, Metropolitan receives water quality benefits with increased deliveries of lower salinity water from the State Water Project in lieu of delivering higher saline Colorado River water. In December 2019, the exchange agreements were amended to provide more flexibility and operational certainty for the parties involved. Additionally, under the amended agreements, CVWD and DWA pay a portion of Metropolitan’s water storage management costs in wet years, up to a combined total of \$4 million per year.

Storage Capacity and Water in Storage

Metropolitan’s storage capacity, which includes reservoirs, conjunctive use and other groundwater storage programs within Metropolitan’s service area and groundwater and surface storage accounts delivered through the State Water Project or CRA, is approximately 6.0 million acre-feet. In 2020, approximately 750,000 acre-feet of total stored water in Metropolitan’s reservoirs and other storage resources was emergency storage that was reserved for use in the event of supply interruptions from earthquakes or similar emergencies (see “METROPOLITAN’S WATER DELIVERY SYSTEM–Seismic Considerations and Emergency Response Measures” in this Appendix A), as well as extended drought. Metropolitan’s emergency storage requirement is established periodically to provide a six-month water supply at 75 percent of member agencies’ retail demand under normal hydrologic conditions. Metropolitan’s ability to replenish water storage, both in the local groundwater basins and in surface storage and banking programs, has been limited by Bay-Delta pumping restrictions under the biological opinions issued for listed species. See “–Endangered Species Act and Other Environmental Considerations –Endangered Species Act Considerations – State Water Project – Delta Smelt and Salmon Federal ESAs Biological Opinions and California ESA Consistency Determinations and Incidental Take Permit.” Metropolitan replenishes its storage accounts when available imported supplies exceed demands. Effective storage management is dependent on having sufficient years of excess supplies to store water so that it can be used during times of shortage. See “CONSERVATION AND WATER SHORTAGE MEASURES–Water Supply Allocation Plan” in this Appendix A. Metropolitan’s storage as of January 1, 2021 is estimated to be 3.91 million acre-feet. As a result of a collaborative process with its member agencies, Metropolitan completed an evaluation of its Emergency Storage Objective in 2019 that resulted in the increase the emergency storage from 626,000 acre-feet to 750,000 acre-feet by January 1, 2020. As a result, the portion of the emergency storage in Metropolitan’s reservoirs was increased from 298,000 acre-feet to 369,000 acre-feet. The following table shows three years of Metropolitan’s water in storage as of January 1, including emergency storage.

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

Water Storage Resource	Storage Capacity	Water in Storage January 1, 2021	Water in Storage January 1, 2020	Water in Storage January 1, 2019
<u>Colorado River Aqueduct</u>				
DWA / CVWD Advance Delivery Account	800,000	313,000	296,000	235,000
Lake Mead ICS	<u>1,657,000</u>	<u>1,294,000</u>	<u>980,000</u>	<u>625,000</u>
Subtotal	2,457,000	1,607,000	1,276,000	860,000
<u>State Water Project</u>				
Arvin-Edison Storage Program ⁽²⁾	350,000	142,000	143,000	154,000
Semitropic Storage Program	350,000	261,000	265,000	187,000
Kern Delta Storage Program	250,000	177,000	189,000	138,000
Mojave Storage Program	330,000 ⁽⁵⁾	19,000 ⁽⁵⁾	19,000 ⁽⁵⁾	19,000 ⁽⁵⁾
AVEK Storage Program	30,000	27,000	27,000	9,000
Castaic Lake and Lake Perris ⁽³⁾	219,000	219,000	219,000	219,000
State Water Project Carryover ⁽⁴⁾	350,000 ⁽⁶⁾	207,000	331,000	93,000
Emergency Storage	<u>381,000</u>	<u>381,000</u>	<u>381,000</u>	<u>328,000</u>
Subtotal	2,260,000	1,433,000	1,574,000	1,147,000
<u>Within Metropolitan's Service Area</u>				
Diamond Valley Lake	810,000	704,000	796,000	702,000
Lake Mathews	182,000	86,000	152,000	141,000
Lake Skinner	<u>44,000</u>	<u>41,000</u>	<u>38,000</u>	<u>37,000</u>
Subtotal⁽⁷⁾	1,036,000	831,000	986,000	880,000
<u>Member Agency Storage Programs</u>				
Conjunctive Use ⁽⁸⁾	<u>210,000</u>	<u>41,000</u>	<u>59,000</u>	<u>47,000</u>
Total	<u>5,963,000</u>	<u>3,912,000</u>	<u>3,895,000</u>	<u>2,934,000</u>

Source: Metropolitan

- (1) Water storage capacity and water in storage are measured based on engineering estimates and are subject to change.
- (2) Metropolitan has temporarily suspended operation of the Arvin-Edison storage program. See "METROPOLITAN'S WATER SUPPLY-Water Transfer, Storage and Exchange Programs – Arvin-Edison/Metropolitan Water Management Program" and "METROPOLITAN'S WATER DELIVERY SYSTEM-Water Quality and Treatment" in this Appendix A.
- (3) Flexible storage allocated to Metropolitan under its State Water Contract. Withdrawals must be returned within five years.
- (4) Includes Article 56 Carryover of Metropolitan, Coachella Valley Water District, and Desert Water Agency, prior-year carryover, non-project carryover, and carryover of curtailed deliveries pursuant to Article 14(b) and Article 12(e) of Metropolitan's State Water Contract.
- (5) The Mojave storage agreement was amended in 2011 to allow for cumulative storage of up to 390,000 acre-feet. Since January 1, 2011, Metropolitan has stored 60,000 acre-feet, resulting in a remaining balance of storage capacity of 330,000 acre-feet. 41,000 acre-feet of the 60,000 acre-feet stored has been returned, leaving a remaining balance in storage of 19,000 acre-feet.
- (6) A capacity of 350,000 acre-feet is estimated to be the practical operational limit for carryover storage considering Metropolitan's capacity to take delivery of carryover supplies before San Luis Reservoir fills.
- (7) Includes 298,000 acre-feet of emergency storage in Metropolitan's reservoirs in 2019, and 369,000 acre-feet of emergency storage in Metropolitan's reservoirs in 2020 and 2021.
- (8) Cyclic storage water was removed from this line item and is now categorized as a pre-delivery.

CONSERVATION AND WATER SHORTAGE MEASURES

General

The central objective of Metropolitan's water conservation program is to help ensure adequate, reliable and affordable water supplies for Southern California by actively promoting efficient water use. The importance of conservation to the region has increased in recent years because of drought conditions in the State Water Project watershed and court-ordered restrictions on Bay-Delta pumping, as described under "METROPOLITAN'S WATER SUPPLY–State Water Project –Bay-Delta Proceedings Affecting State Water Project" and "--Endangered Species Act and Other Environmental Considerations –Endangered Species Act Considerations–State Water Project – Delta Smelt and Salmon Federal ESAs Biological Opinions and California ESA Consistency Determinations and Incidental Take Permit" in this Appendix A. Conservation reduces the need to import water to deliver to member agencies through Metropolitan's system. Water conservation is an integral component of Metropolitan's IRP, WSDM Plan and Water Supply Allocation Plan.

Metropolitan's conservation program has largely been developed to assist its member agencies in meeting the conservation goals of the 2015 IRP Update. See "METROPOLITAN'S WATER SUPPLY–Integrated Water Resources Plan" in this Appendix A. All users of Metropolitan's system benefit from the reduced infrastructure costs and system capacity made available by investments in demand management programs like the Conservation Credits Program. Under the terms of Metropolitan's Conservation Credits Program, Metropolitan administers regional conservation programs and also co-funds member agency conservation programs designed to achieve greater water use efficiency in residential, commercial, industrial, institutional and landscape uses. Direct spending by Metropolitan on active conservation incentives, including rebates for water-saving plumbing fixtures, appliances and equipment totaled about \$18.9 million in fiscal year 2019-20. The 2015 IRP Update estimates that Metropolitan's conservation efforts will result in 1,197,000 acre-feet of water being conserved annually in Southern California by 2025. See also "METROPOLITAN'S WATER SUPPLY–Integrated Water Resources Plan" in this Appendix A and "--Increased Drought Resiliency" below.

Historically, revenues collected by Metropolitan's Water Stewardship Rate and available grant funds have funded conservation incentives, local resource development incentives, and other water demand management programs. The Water Stewardship Rate was charged on every acre-foot of water conveyed by Metropolitan, except on water delivered to SDCWA pursuant to the Exchange Agreement (see "METROPOLITAN REVENUES–Water Rates" and "--Litigation Challenging Rate Structure" in this Appendix A) in calendar years 2018, 2019, and 2020. The Water Stewardship Rate has not been incorporated into Metropolitan's rates and charges for 2021 and 2022. See "METROPOLITAN REVENUES–Rate Structure –Water Stewardship Rate" in this Appendix A.

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

Metropolitan's Water Supply Allocation Plan allocates Metropolitan's water supplies among its member agencies, based on the principles contained in the WSDM Plan, to reduce water use and drawdowns from water storage reserves. See "--Water Supply Allocation Plan." Metropolitan's member agencies and retail water suppliers in Metropolitan's service area also have the ability to implement water conservation and allocation programs, and some of the retail suppliers in Metropolitan's service area have initiated conservation measures. The success of conservation measures in conjunction with the implementation of the Water Supply Allocation Plan in fiscal years 2009-10, 2010-11, 2011-12 and 2015-16 is evidenced as a contributing factor in the lower than budgeted water transactions during such drought periods.

Legislation approved in November 2009 set a statewide conservation target for urban per capita potable water use of 20 percent reductions (from a baseline per capita use determined utilizing one of four State-approved methodologies) by 2020 (with credits for existing conservation) at the retail level, providing an additional catalyst for conservation by member agencies and retail suppliers. Metropolitan's water transactions projections incorporate an estimate of conservation savings that will reduce retail demands. Current projections include an estimate of additional water use efficiency savings that would result from Metropolitan's 2015 IRP Update goals that included the reduction of overall regional per capita water use by 20 percent by 2020 from a baseline of average per capita water use from 1996-2005 in Metropolitan's service area. As of calendar year 2019, per capita water use in Metropolitan's service area had reached the 20 percent reduction by 2020 target.

Water Surplus and Drought Management Plan

In addition to the long-term planning guidelines and strategy provided by its IRP, Metropolitan has developed its WSDM Plan for the on-going management of its resources and water supplies in response to hydrologic conditions. The WSDM Plan, which was adopted by Metropolitan's Board in April 1999, evolved from Metropolitan's experiences during the droughts of 1976-77 and 1987-92. The WSDM Plan is a planning document that Metropolitan uses to guide inter-year and intra-year storage operations, and splits resource actions into two major categories: surplus actions and shortage actions. The surplus actions emphasize storage of surplus water inside the region, followed by storage of surplus water outside the region. The shortage actions emphasize critical storage programs and facilities and conservation programs that make up part of Metropolitan's response to shortages. Implementation of the plan is directed by a WSDM team, made up of Metropolitan staff, that meets regularly throughout the year and more frequently between November and April as hydrologic conditions develop. The WSDM team develops and recommends storage actions to senior management on a regular basis and provides updates to the Board on hydrological conditions, storage levels and planned storage actions through detailed reports.

Water Supply Allocation Plan

In times of prolonged or severe water shortages, Metropolitan manages its water supplies through the implementation of its Water Supply Allocation Plan. The Water Supply Allocation Plan was originally approved by Metropolitan's Board in February 2008, and has been implemented three times since its adoption, including most recently in April 2015. The drought of 2012-2016 was one of the driest periods in the hydrological record since 1931-1934. The Board declared a Water Supply Condition 3 on April 14, 2015, and the implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level, effective July 1, 2015 through June 30, 2016. On May 10, 2016, the Board rescinded the implementation of the Water Supply Allocation Plan due to improved hydrological conditions. The Water Supply Allocation Plan provides a formula for equitable distribution of available water supplies in case of extreme water shortages within Metropolitan's service area and if needed is typically approved in the month of April with implementation beginning in the month of July. In December 2014, the Board approved certain adjustments to the formula for calculating member agency supply allocations during subsequent periods of implementation of the Water Supply Allocation Plan. Although the Act gives each of Metropolitan's member agencies a preferential entitlement to purchase a portion of the water served by Metropolitan (see "METROPOLITAN REVENUES–Preferential Rights" in this Appendix A), historically, these rights have not been used in allocating Metropolitan's water. Metropolitan's member agencies and retail water suppliers in Metropolitan's service area also may implement water conservation and allocation programs within their respective service territories in times of shortage. See also "–Increased Drought Resiliency." Based upon current DWR State Water Project allocation estimates and Metropolitan's existing storage balances, implementation of the Water Supply Allocation Plan for fiscal year 2021-22 is not expected.

Increased Drought Resiliency

Metropolitan has worked proactively with its member agencies to conserve water supplies in its service area, and significantly expanded its water conservation and outreach programs and increased funding

for conservation incentive programs. In May 2017, the Alliance for Water Efficiency presented a peer review report of Metropolitan's conservation programs. Program modifications were adopted in April 2018 to reflect the peer review recommendations as well as feedback from member agencies. See "CONSERVATION AND WATER SHORTAGE MEASURES—General." Metropolitan has also taken other actions to improve drought resiliency that include increasing water recycling by providing incentives for on-site recycled water hook-ups, improving return capability of storage programs, and modifying Metropolitan's distribution system to enhance Colorado River water delivery to mitigate limitations in State Water Project supply.

REGIONAL WATER RESOURCES

The water supply for Metropolitan's service area is provided in part by Metropolitan and in part by non-Metropolitan sources available to members. Non-Metropolitan sources include water imported by the City of Los Angeles (the "City") from the Owens Valley/Mono Basin east of the Sierra Nevada through the City's Los Angeles Aqueduct to serve customers of the City. See "-- Los Angeles Aqueduct." The balance of water within the region is produced locally, from sources that include groundwater and surface water production, recycled water and recovery of contaminated or degraded groundwater, and seawater desalination. Programs to develop these local resources include projects funded by Metropolitan's Local Resources Program, as well as local agency funded programs. See "--Local Water Supplies.

Based on a ten-year average from 2010 through 2019, non-Metropolitan sources met about 53 percent of the region's water needs. These non-Metropolitan sources of supply fluctuate in response to variations in rainfall. During prolonged periods of below normal rainfall, local water supplies decrease. Conversely, prolonged periods of above-normal rainfall increase local supplies. Sources of groundwater basin replenishment include local precipitation, runoff from the coastal ranges, and artificial recharge with imported water supplies. In addition to runoff, recycled water provides an increasingly important source of replenishment water for the region.

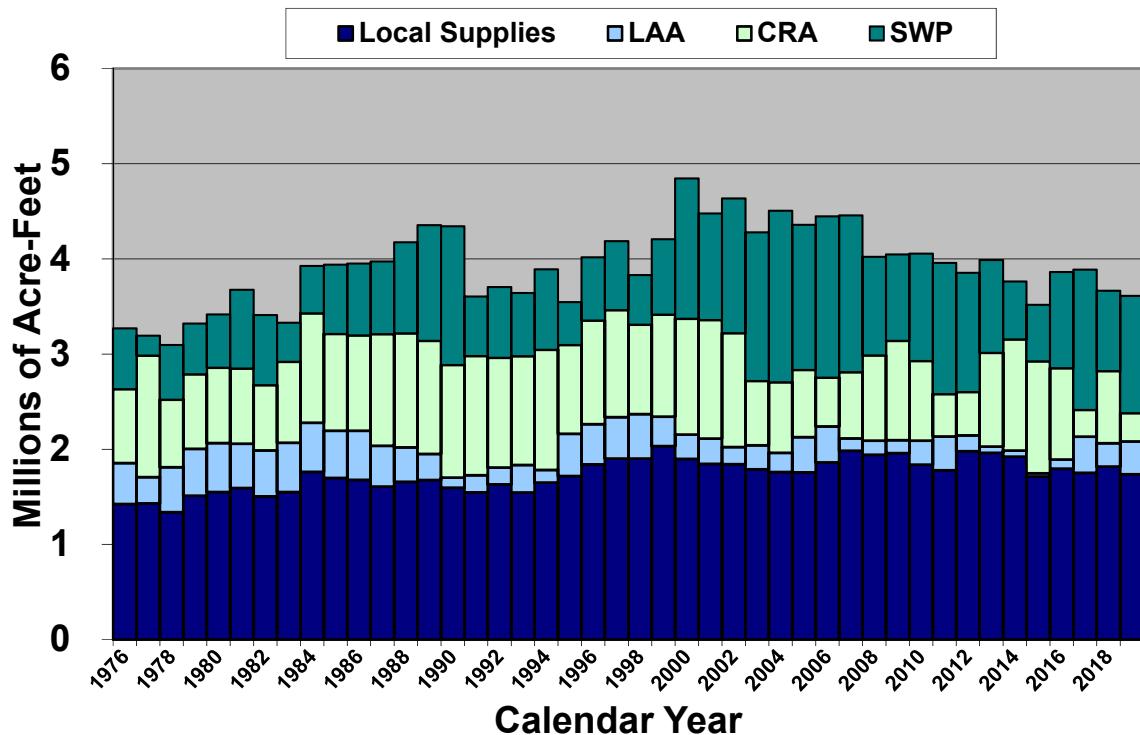
Metropolitan's member agencies are not required to purchase or use any of the water available from Metropolitan. Some agencies depend on Metropolitan to supply nearly all of their water needs, regardless of the weather. Other agencies, with local surface reservoirs or aqueducts that capture rain or snowfall, rely on Metropolitan more in dry years than in years with heavy rainfall, while others, with ample groundwater supplies, purchase Metropolitan water only to supplement local supplies and to recharge groundwater basins. Consumer demand and locally supplied water vary from year to year, resulting in variability in the volume of Metropolitan's water transactions.

In recent years, supplies and demands have been affected by drought, water use restrictions, economic conditions, weather conditions and environmental laws, regulations and judicial decisions, as described in this Appendix A under "METROPOLITAN'S WATER SUPPLY." The demand for supplemental supplies provided by Metropolitan is dependent on water use at the retail consumer level and the amount of locally supplied and conserved water. See "CONSERVATION AND WATER SHORTAGE MEASURES" in this Appendix A and "--Local Water Supplies" below.

Future reliance on Metropolitan supplies will depend on, among other things, current and future local projects that may be developed and the amount of water that may be derived from sources other than Metropolitan. For information on Metropolitan's water revenues, see "METROPOLITAN REVENUES" and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

The following graph shows a summary of the regional sources of water supply for the years 1976 to 2019. It includes updated local supply numbers that include Santa Ana River baseflow below Prado Dam, which was previously not included from 1980 through 2009. Additional local supply updates from 2010 through 2018 include changes due to reconciliation from 2020 local supply survey. These values reflect the 2020 Urban Water Management Plan.

Sources of Water Supply in the Metropolitan Service Area (1976-2019)



Source: Metropolitan.

The major sources of water available to some or all of Metropolitan's member agencies in addition to supplies provided by Metropolitan are described below.

Los Angeles Aqueduct

The City of Los Angeles, through its Department of Water and Power ("LADWP"), operates its Los Angeles Aqueduct system to import water from the Owens Valley and the Mono Basin on the eastern slopes of the Sierra Nevada in eastern California. Water imported by the City on the Los Angeles Aqueduct system comes primarily from surface water rights of the City in eastern Sierra Nevada watersheds along various streams, creeks and rivers in the Mono Basin, Long Valley and Owens Valley, and groundwater resources in the Owens Valley from the City's ownership of approximately 330,000 acres of land and associated water rights. This water supply of the City, which serves LADWP's customers, currently meets about 5.22 percent of the region's water needs based on a ten-year average from 2010 through 2019.

Surface runoff (snowmelt) is subject to substantial annual variability, which influences the amount of water delivered by the Los Angeles Aqueduct. In addition, the City is subject to several environmental commitments in the Mono Basin and Owens Valley which impact the availability of water to the City for import on the Los Angeles Aqueduct. These include: the SWRCB's Mono Lake Basin Water Rights Decision 1631, which limits on the City's water exports from the Mono Basin based on Mono Lake's surface elevation; and (ii) the City's legal obligations under a long-term groundwater management plan relating to the City's groundwater resources in the Owens Valley.

Since 1989, Los Angeles Aqueduct water deliveries to the City have varied from as little as 57,716 acre-feet in fiscal year 2014-15 to as much as 467,000 acre-feet of water in fiscal year 1995-96. Average water deliveries to the City from the Los Angeles Aqueduct were approximately 238,960 acre-feet per fiscal year between fiscal years 2015-16 and 2019-20 (approximately 48.0% of the City's annual water supply). However, during fiscal year 2015-16 (one of the worst years of the recent drought), water deliveries to the City from the Los Angeles Aqueduct were only 57,853 acre-feet (approximately 11.8% of the City's water supply for fiscal year 2015-16). Consequently, the amount of water purchased by the City from Metropolitan varies (sometimes substantially) from one year to the next. During the past five fiscal years 2015-16 through 2019-20, the City's water purchases from Metropolitan (billed water transactions) ranged from a low of 141,866 in fiscal year 2018-19 to a high of 332,528 in fiscal year 2015-16.

Local Water Supplies

Local water supplies are made up of groundwater, groundwater recovery, surface runoff, recycled water, and seawater desalination. Metropolitan supports local resources development through its Local Resources Program, which provides financial incentives up to \$340 per acre-foot of water production from local water recycling, groundwater recovery and seawater desalination projects. Metropolitan utilizes conjunctive use of groundwater to encourage storage in groundwater basins. Member agencies and other local agencies have also independently funded and developed additional local supplies, including groundwater clean-up, recycled water and desalination of brackish or high salt content water. See also "METROPOLITAN'S WATER DELIVERY SYSTEM–Water Quality and Treatment" in this Appendix A for information regarding recent water quality regulations and developments that impact or may impact certain local groundwater supplies.

Metropolitan's water transaction projections are based in part on projections of locally-supplied water. Projections of future local supplies are based on estimated yields from sources and projects that are currently producing water or are under construction at the time a water transaction projection is made. Additional reductions in Metropolitan's water transaction projections are made to account for future local supply augmentation projects, based on the 2015 IRP Update goals. See "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES–Water Transactions Projections" and "METROPOLITAN'S WATER SUPPLY–Integrated Water Resources Plan" in this Appendix A.

Groundwater. Demands for about 1.1 million acre-feet per year, about one-third of the annual water demands for approximately 19 million residents of Metropolitan's service area, are met from groundwater production. Local groundwater supplies are supported by recycled water, which is blended with imported water and recharged into groundwater basins, and also used for creating seawater barriers that protect coastal aquifers from seawater intrusion.

Member Agency Storage Programs. Metropolitan has developed a number of local programs to work with its member agencies to increase storage in groundwater basins. Metropolitan has encouraged storage through its cyclic and conjunctive use storage programs. These programs allow Metropolitan to deliver water into a groundwater basin in advance of agency demands. Metropolitan has drawn on dry-year supply from nine contractual conjunctive use storage programs to address shortages from the State Water Project and the CRA.

Cyclic storage agreements allow pre-delivery of imported water for recharge into groundwater basins in excess of an agency's planned and budgeted deliveries making best use of available capacity in conveyance pipelines, use of storm channels for delivery to spreading basins, and use of spreading basins. This water is then purchased at a later time when the agency has a need for groundwater replenishment deliveries.

Conjunctive use agreements provide for storage of imported water that can be called for use by Metropolitan during dry, drought, or emergency conditions. During a dry period, Metropolitan has the option

to call water stored in the groundwater basins pursuant to its contractual conjunctive use agreements. At the time of the call, the member agency pays Metropolitan the prevailing rate for that water. Nine conjunctive use projects provide about 210,000 acre-feet of groundwater storage and have a combined extraction capacity of about 70,000 acre-feet per year. See the table entitled “Metropolitan’s Water Storage Capacity and Water in Storage” under “METROPOLITAN’S WATER SUPPLY—Storage Capacity and Water in Storage” in this Appendix A.

Recovered Groundwater. Contamination of groundwater supplies is a growing threat to local groundwater production. Metropolitan has been supporting increased groundwater production and improved regional supply reliability by offering financial incentives to agencies for production and treatment of degraded groundwater since 1991. Metropolitan has executed agreements with local agencies to provide financial incentives to 27 projects that recover contaminated groundwater with total contract yields of about 124,000 acre-feet per year. During fiscal year 2019-20, Metropolitan provided incentives for approximately 50,000 acre-feet of recovered water under these agreements. Additionally, 62,000 acre-feet of recovered groundwater was produced by local agencies through other independently funded and developed sources. Total groundwater recovery use under executed agreements with Metropolitan is expected to grow to 58,000 acre-feet in 2021.

Surface Runoff. Local surface water resources consist of runoff captured in storage reservoirs and diversions from streams. Since 1980, agencies have used an average of 110,000 acre-feet per calendar year of local surface water. Local surface water supplies are heavily influenced by year to year local weather conditions, varying from a high of 188,000 acre-feet in calendar year 1998 to a low of 37,000 acre-feet in calendar year 2016.

Recycled Water-Local Agency Projects. Metropolitan has supported recycled water use to offset water demands and improve regional supply reliability by offering financial incentives to agencies for production and sales of recycled water since 1982 through the Local Resources Program (“LRP”). Since the inception of the LRP, Metropolitan has executed agreements with local agencies to provide financial incentives to 83 recycled water projects with total expected contract yields of about 360,000 acre-feet per year. During fiscal year 2019-20, Metropolitan provided incentives for approximately 128,400 acre-feet of recycled water under these agreements. Additionally, 370,000 acre-feet of recycled water (including wastewater discharged to the Santa Ana River that percolates into downstream groundwater basins) was produced by local agencies through other independently funded and developed sources. Total recycled water use under executed agreements with Metropolitan currently in place is expected to be approximately 115,000 acre-feet annually by the end of fiscal year 2020-21. On December 10, 2019, Metropolitan’s Board authorized the General Manager to enter into a Local Resources Program agreement with SDCWA and the City of San Diego to provide financial incentives in connection with the first phase of a proposed recycling project (the San Diego Pure Water North City Project Phase 1) being developed by the City of San Diego. Phase 1 of the project, if completed, would provide up to 33,600 acre-feet annually of recycled water for surface water augmentation, and LRP financial incentives of up to \$285.6 million could be provided by Metropolitan for the project over a 25-year period. As noted above, Local Resources Program agreements provide incentives of up to \$340 per acre-foot of water production (based on actual project unit costs that exceed Metropolitan’s water rates) from local water supply projects developed by local and member agencies. Agreement terms are for 25 years and terminate automatically if construction does not commence within two full fiscal years of agreement execution or if recycled water deliveries are not realized within four full fiscal years of agreement execution.

Recycled Water-Metropolitan Regional Recycled Water Program. Since 2010, Metropolitan has been evaluating the potential and feasibility of implementing a regional recycled water program (the “RRWP”). Chronic drought conditions have resulted in significant reductions in local surface supplies and groundwater production and have increased the need for recharge supplies to groundwater and surface water reservoirs to improve their sustainable yields and operating integrity. In 2015, Metropolitan executed an

agreement with the Sanitation Districts of Los Angeles County (“LACSD”) to implement a demonstration project and to establish a framework of terms and conditions of the RRWP. The objectives of the RRWP are to enable the potential reuse of up to 150 million gallons per day (“mgd”) of treated effluent from LACSD’s Joint Water Pollution Control Plant (“JWPCP”). Purified water from a new advanced treatment facility could be delivered through pipelines to the region’s groundwater basins, industrial facilities, and two of Metropolitan’s treatment plants. Construction of a 0.5-mgd advanced water treatment demonstration plant was approved in 2017 and was completed in September 2019. Testing and operation of the plant began in October 2019 to confirm treatment costs and provide the basis for regulatory approval of the proposed treatment process. The initial phase of testing is scheduled for completion in 2021 with future testing phases planned that will form the basis for the design, operation, and optimization of, and will inform Metropolitan’s Board decision whether to move forward with, a full-scale advanced water treatment facility. Finally, the RRWP will have the flexibility to be expanded in the future to implement Direct Potable Reuse (“DPR”) through raw water augmentation at two of Metropolitan’s treatment plants. The SWRCB Division of Drinking Water (“DDW”) is in the process of developing regulations for DPR in California, with the current anticipated date for promulgation by the end of 2023. The fiscal year 2020-21 and 2021-22 biennial budget includes \$30 million for the preparation of a programmatic environmental impact report for the RRWP. Metropolitan’s financial projections for the fiscal years ending June 30, 2020 through 2024 do not include any future capital costs associated with a potential full-scale RRWP. On November 10, 2020, Metropolitan’s Board voted to begin environmental planning work on the RRWP. In December 2020, Metropolitan and SNWA executed a funding agreement under which SNWA will contribute up to \$6 million for the environmental planning costs for the RRWP. In the event either SNWA or Metropolitan decides not to proceed or participate in the RRWP in the future, SNWA’s financial contribution to the RRWP’s environmental planning would be returned by Metropolitan.

Seawater Desalination. Metropolitan’s 2015 IRP Update embraces seawater desalination as a part of the region’s supply portfolio that could help increase supply reliability in Southern California.

In 2015, Poseidon Resources LLC (“Poseidon”) began operating the 56,000 acre-foot capacity Carlsbad Desalination Project (“Carlsbad Project”) and associated pipeline. SDCWA has a purchase agreement with Poseidon for a minimum of 48,000 acre-feet per year with an option to purchase an additional 8,000 acre-feet per year.

In October 2014, seawater desalination projects became eligible for funding under Metropolitan’s LRP. There are three local seawater desalination projects in the permitting stages which could receive LRP incentives. These include South Coast Water District’s proposed 5,600 to 15,000 acre-feet per year Doheny Ocean Desalination project in south Orange County; Orange County Water District’s proposed 56,000 acre-feet per year Huntington Beach Seawater Desalination project in north Orange County; and West Basin Municipal Water District’s proposed 20,000 to 60,000 acre-feet per year project in Los Angeles County. LRP applications for the potential projects could be considered by Metropolitan’s Board after they are permitted, free of litigation, and authorized to proceed by their developing agencies.

In 2007, the Board approved Metropolitan’s role as a regional facilitator for seawater desalination. This includes supporting local projects during permitting and providing technical assistance when requested. Metropolitan’s regional facilitation includes active participation in organizations advocating for desalination and salinity management, including CalDesal within California and the Multi-State Salinity Coalition nationally. Metropolitan also participates in the National Alliance for Water Innovation (“NAWI”). NAWI is a DOE-led, five-year, \$100 million research effort focused on accelerating the commercialization of early-stage desalination technologies. New technologies developed by NAWI could reduce cost and environmental barriers to seawater desalination in California.

METROPOLITAN'S WATER DELIVERY SYSTEM

Primary Facilities and Method of Delivery

Metropolitan's water delivery system is made up of three basic components: the CRA, the California Aqueduct of the State Water Project and Metropolitan's water distribution system. Metropolitan's delivery system is integrated and designed to meet the differing needs of its member agencies. Metropolitan seeks redundancy in its delivery system to assure reliability in the event of an outage. Improvements are designed to increase the flexibility of the system. Since local sources of water are generally used to their maximum each year, growth in the demand for water is partially met by Metropolitan. The operation of Metropolitan's water system is being made more reliable through the rehabilitation of key facilities as needed, improved preventive maintenance programs and the upgrading of Metropolitan's operational control systems. See "CAPITAL INVESTMENT PLAN" in this Appendix A.

Colorado River Aqueduct. Work on the CRA commenced in 1933 and water deliveries started in 1941. Additional facilities were completed by 1961 to meet additional requirements of Metropolitan's member agencies. The CRA is 242 miles long, starting at the Lake Havasu intake and ending at the Lake Mathews terminal reservoir. Metropolitan owns all of the components of the CRA, which include five pumping plants, 64 miles of canal, 92 miles of tunnels, 55 miles of concrete conduits, four reservoirs, and 144 underground siphons totaling 29 miles in length. The pumping plants lift the water approximately 1,617 feet over several mountain ranges to Metropolitan's service area. See "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct" in this Appendix A.

State Water Project. The initial portions of the State Water Project serving Metropolitan were completed in 1973. The State Water Project, managed and operated by DWR, is one of the largest water supply projects undertaken in the history of water development. The State Water Project facilities dedicated to water delivery consist of a complex system of dams, reservoirs, power plants, pumping plants, canals and aqueducts to deliver water. Water from rainfall and snowmelt runoff is captured and stored in State Water Project conservation facilities and then delivered through State Water Project transportation facilities to water agencies and districts located throughout the Upper Feather River, Bay Area, Central Valley, Central Coast, and Southern California. Metropolitan receives water from the State Water Project through the main stem of the aqueduct system, the California Aqueduct, which is 444 miles long and includes 381 miles of canals and siphons, 49 miles of pipelines or tunnels and 13 miles of channels and reservoirs.

As described herein, Metropolitan is the largest (in terms of number of people it serves, share of State Water Project water it has contracted to receive, and percentage of total annual payments made to DWR therefor) of twenty-nine agencies and districts that have entered into contracts with DWR to receive water from the State Water Project. Contractors pay all costs of the facilities in exchange for participation rights in the system. Thus, Contractors also have the right to use the portion of the State Water Project conveyance system necessary to deliver water to them at no additional cost as long as capacity exists. See "METROPOLITAN'S WATER SUPPLY—State Water Project" in this Appendix A.

Distribution System. Metropolitan's distribution system is a complex network of facilities which routes water from the CRA and State Water Project to Metropolitan's member agencies. The water distribution system includes components that were built beginning in the 1930s and through the present. Metropolitan owns all of these components, including 16 reservoirs, five regional treatment plants, over 800 miles of transmission pipelines, feeders and canals, and 16 hydroelectric plants with an aggregate capacity of 130 megawatts.

Diamond Valley Lake. Diamond Valley Lake, a man-made reservoir, built, owned and operated by Metropolitan, is located southwest of the city of Hemet, California. It covers approximately 4,410 acres and has capacity to hold approximately 810,000 acre-feet or 265 billion gallons of water. Diamond Valley Lake was constructed to serve approximately 90 percent of Metropolitan's service area by gravity flow. Imported

water is delivered to Diamond Valley Lake during surplus periods. The reservoir provides more reliable delivery of imported water from the State Water Project during summer months, droughts and emergencies. In addition, Diamond Valley Lake is capable of providing more than one-third of Southern California's water needs from storage for approximately six months after a major emergency (assuming that there has been no impairment of Metropolitan's internal distribution network). See the table entitled "Metropolitan's Water Storage Capacity and Water in Storage" under "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in this Appendix A for the amount of water in storage at Diamond Valley Lake. Excavation at the project site began in May 1995. Diamond Valley Lake was completed in March 2000, at a total cost of \$2 billion, and was in full operation in December 2001.

Inland Feeder. Metropolitan's Inland Feeder is a 44-mile-long conveyance system that connects the State Water Project to Diamond Valley Lake and the CRA. The Inland Feeder provides greater flexibility in managing Metropolitan's major water supplies and allows greater amounts of State Water Project water to be accepted during wet seasons for storage in Diamond Valley Lake. In addition, the Inland Feeder increases the conveyance capacity from the East Branch of the State Water Project by 1,000 cfs, allowing the East Branch to operate up to its full capacity. Construction of the Inland Feeder was completed in September 2009 at a total cost of \$1.14 billion.

Operations Control Center. Metropolitan's water conveyance and distribution system operations are coordinated from the Operations Control Center ("OCC") centrally located in Los Angeles County. The OCC plans, balances and schedules daily water and power operations to meet member agencies' demands, taking into consideration the operational limits of the entire system.

Water Quality and Treatment

Metropolitan filters and disinfects water at five water treatment plants: the F.E. Weymouth Treatment Plant, the Joseph Jensen Treatment Plant, the Henry J. Mills Treatment Plant, the Robert B. Diemer Treatment Plant, and the Robert A. Skinner Treatment Plant. In recent years, the plants typically treat between 0.8 billion and 1.0 billion gallons of water per day and have a maximum capacity of approximately 2.4 billion gallons per day. Approximately 50 percent of Metropolitan's water deliveries are treated water.

Federal and state regulatory agencies continually identify potential contaminants and establish new water quality standards. New water quality standards could affect availability of water and impose significant compliance costs on Metropolitan. The federal Safe Drinking Water Act ("SDWA") establishes drinking water quality standards, monitoring, and public notification and enforcement requirements for public water systems. To achieve these objectives, the U.S. Environmental Protection Agency (the "USEPA"), as the lead regulatory authority, promulgates national drinking water regulations and develops the mechanism for individual states to assume primary enforcement responsibilities. The SWRCB DDW, formerly the Drinking Water Program under the California Department of Public Health, has primary responsibility for the regulation of public water systems in the State. Drinking water delivered to customers must comply with statutory and regulatory water quality standards designed to protect public health and safety. Metropolitan operates its five water treatment plants under a domestic water supply permit issued by DDW, which is amended, as necessary, such as when significant facility modifications occur. Metropolitan operates and maintains water storage, treatment and conveyance facilities, implements watershed management and protection activities, performs inspections, monitors drinking water quality, and submits monthly and annual compliance reports. In addition, public water system discharges to state and federal waters are regulated under general National Pollutant Discharge Elimination System ("NPDES") permits. These NPDES permits, which the SWRCB issued to Metropolitan, contain numerical effluent limitations, monitoring, reporting, and notification requirements for water discharges from the facilities and pipelines of Metropolitan's water supply and distribution system.

As described herein, Metropolitan has established five groundwater storage programs with other water agencies that allow Metropolitan to store available supplies in the Central Valley for return later. These

programs help manage supplies by putting into storage surplus water in years when it is available and converting that to dry year supplies to be returned when needed. These programs can also provide emergency supplies. See “METROPOLITAN’S WATER SUPPLY–Water Transfer, Storage and Exchange Programs – State Water Project Agreements and Programs” and “–Storage Capacity and Water in Storage” in this Appendix A. Generally, water returned to Metropolitan under these groundwater storage programs (“return water”) may be made available in one of two ways: by direct pump back from a groundwater well to the California Aqueduct or, when available, by an exchange with a supply already in the aqueduct. Water quality issues can arise in water returned by direct pumping as a result of the presence of a water quality contaminant in the groundwater storage basin and due to the imposition of stricter water quality standards by federal or State regulation.

In 2017, the SWRCB adopted a regulation setting a Maximum Contaminant Level (“MCL”) for TCP of 5 parts per trillion (“ppt”) based upon a running annual average. TCP is a manufactured chemical used as a cleaning and degreasing solvent and has been found at industrial and hazardous waste sites. It is also associated with pesticide products used in agricultural practices. In January 2018, the new regulation went into effect. Under the new regulation, drinking water agencies are required to perform quarterly monitoring of TCP. There have been no detections of this chemical in Metropolitan’s system. However, TCP has been detected above the MCL in groundwater wells of three of Metropolitan’s groundwater storage program partners through monitoring performed by these agencies. Levels detected in groundwater wells of the Arvin-Edison Water Storage District are the highest and impact Metropolitan’s ability to put water into storage and take return water under that program. As noted under “METROPOLITAN’S WATER SUPPLY–Water Transfer, Storage and Exchange Programs” in this Appendix A, Metropolitan has temporarily suspended operation of this program until the water quality concerns can be further evaluated and managed. The levels of TCP detected at Metropolitan’s other groundwater storage programs are much lower and impact fewer groundwater wells. Metropolitan is evaluating the effects of TCP on the return capability of those programs.

Possible remediation measures include, for example, return water with other surface water supplies, removal of wells from service, return water by exchange, or treatment. Additional capital and/or operation and maintenance costs could be incurred by Metropolitan in connection with remediation options, but the magnitude of such costs is not known at this time. To the extent return water under one or more groundwater storage programs could not be utilized due to groundwater quality, the available supply of stored water during extended drought or emergency periods would be reduced.

Metropolitan continually monitors new water quality laws and regulations and frequently comments on new legislative proposals and regulatory rules. For example, on June 26, 2019, the USEPA proposed setting the MCL for perchlorate at 56 micrograms per liter ($\mu\text{g/L}$). Perchlorate is both a naturally occurring and man-made chemical used in the production of rocket fuel, missiles, fireworks, flares and explosives. It is also sometimes present in bleach and in some fertilizers. Groundwater in the Henderson, Nevada area has been contaminated with perchlorate as a result of two former chemical manufacturing facilities, and there are ongoing remediation programs to mitigate its release into the Las Vegas Wash and the downstream Colorado River. In addition to its proposed setting of a perchlorate MCL of 56 $\mu\text{g/L}$, the USEPA sought comment on three alternative regulatory options: (1) setting an MCL for perchlorate at 18 $\mu\text{g/L}$; (2) setting an MCL for perchlorate at 90 $\mu\text{g/L}$; or (3) withdrawing EPA’s 2011 determination to regulate perchlorate in drinking water. On August 23, 2019, Metropolitan submitted a comment letter on the USEPA’s proposed regulation, recommending that the USEPA consider the health effects data used by several states for setting MCLs and Advisory Levels for perchlorate, as well as the monitoring and compliance guidance provided by California and Massachusetts in developing their perchlorate MCLs. Also, Metropolitan expressed its concern that the USEPA does not have an up-to-date accounting of perchlorate contamination and that the USEPA excluded perchlorate data from California and Massachusetts. As it has in the past, Metropolitan continued to urge the USEPA to establish a drinking water regulation for perchlorate that is protective of human health and prevents any adverse impact to the Colorado River and the millions of users that rely upon it as a source of drinking water supply. Lastly, Metropolitan asked the USEPA not to withdraw its 2011 determination to

regulate perchlorate in drinking water; otherwise, drinking water utilities in Nevada and Arizona which rely on Colorado River water could then have higher levels of perchlorate in their source water, and California drinking water utilities, including some of Metropolitan's member agencies, would be challenged to comply with California's MCL for perchlorate of 6 µg/L if remediation efforts in the Henderson area were slowed down in the absence of a federal regulation. On June 18, 2020, the USEPA withdrew its 2011 determination to regulate perchlorate under the SDWA and issued a new determination that perchlorate does not meet the statutory criteria for regulation. Thus, there is currently no federal drinking water standard for perchlorate. Whether the USEPA should issue a national drinking water standard for perchlorate is the subject of ongoing litigation by the Natural Resources Defense Council, Inc. The case is currently on hold while the USEPA is reviewing its prior decision not to set a federal MCL for perchlorate for compliance with the President's Executive Order on Public Health and the Environment.

California is reviewing its MCL for perchlorate in light of a revised Public Health Goal ("PHG") of 1 µg/L adopted in February 2015. PHGs are established by the California Office of Environmental Health Hazard Assessment ("OEHHA") and used as the basis for the development of a State regulation setting an MCL. The SWRCB is required to set an MCL for a chemical as close to the PHG as is technologically and economically feasible, placing primary emphasis on the protection of public health. As part of this process, on March 6, 2020, the SWRCB proposed lowering the detection limit for purposes of reporting ("DLR") for perchlorate from 4 µg/L to 2 µg/L. Data collected from monitoring using the lower DLR will allow the SWRCB to evaluate the technological and economic feasibility of water treatment to reduce perchlorate levels to concentrations less than the current DLR. On April 30, 2020, Metropolitan submitted a comment letter to the SWRCB supporting the lower perchlorate DLR which is consistent with laboratory capabilities and will allow for a more accurate and complete assessment of perchlorate occurrence across the State. In July 2020, due to improved analytical methods, and in order to evaluate a lower MCL, DDW modified its proposal to lowering the DLR for perchlorate initially to 2 µg/L, and subsequently to the PHG of 1 µg/L in a second phase effective January 1, 2024. On October 6, 2020, the SWRCB approved the modified proposal. Metropolitan will continue to participate in federal and state rulemaking proceedings.

Metropolitan is monitoring and commenting on the development of legislation, laws, and regulations regarding per- and poly-fluoroalkyl substances ("PFAS"). PFAS are substances widely used in consumer and industrial products such as fabrics, carpets, firefighting foams, food packaging and nonstick cookware and are known for their nonstick, waterproof, and heat and stain resistant properties. Perfluorooctane sulfonate ("PFOS") and perfluorooctanoic acid ("PFOA") are the two most common synthetic organic chemicals in the group of compounds referred to as PFAS. In August 2019, DDW lowered the notification levels ("NLs") for PFOS from 13 ppt to 6.5 ppt and for PFOA from 14 ppt to 5.1 ppt. NLs are non-regulatory, precautionary health-based measures for concentrations of chemicals in drinking water that warrant notification and further monitoring and assessment. If a chemical concentration is greater than its NL in drinking water that is provided to consumers, DDW recommends that the utility inform its customers and consumers about the presence of the chemical, and about health concerns associated with exposure to it. In February 2020, DDW lowered the response levels ("RLs") for PFOA and PFOS from 70 ppt for individual or combined concentrations to 10 ppt for PFOA and 40 ppt for PFOS. An RL is set higher than an NL and represents a chemical concentration level at which DDW recommends a water system consider taking a water source out of service or providing treatment if that option is available to them. Legislation which took effect on January 1, 2020 (California Assembly Bill 756) requires that water systems that receive a monitoring order from the SWRCB and detect levels of PFAS that exceed their respective RL must either take a drinking water source out of use or provide specified public notification if they continue to supply water above the RL. In March 2021, DDW issued an NL of 0.5 parts per billion ("ppb") and an RL of 5 ppb for perfluorobutane sulfonic acid (PFBS), another PFAS chemical. The NL for PFBS is 100 times higher than the NLs for PFOA and PFOS.

DDW has asked OEHHA to recommend NLs for six other PFAS compounds consistently detected in California drinking water sources: perfluorohexane sulfonic acid (PFHxS), perfluorohexanoic acid (PFHxA),

perfluoroheptanoic acid (PFHpA), perfluorononanoic acid (PFNA), perfluorodecanoic acid (PFDA), and 4,8-dioxa-3H-perflourononanoic acid (ADONA). DDW has also requested that OEHHA develop PHGs for both PFOA and PFOS, the next step in the process of establishing MCLs in drinking water. On March 19, 2021, OEHHA announced its intent to list PFOA as a carcinogen under the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65). On March 26, 2021, OEHHA announced its review of the carcinogenic hazard of PFOS for possible listing under Proposition 65. That same day, OEHHA also announced its assessment of the reproductive toxicity of PFDA, PFHxS, PFNA, and perfluoroundecanoic acid (PFUnDA) for possible listing under Proposition 65. Comments regarding whether PFOA meets the criteria to be listed as a carcinogen under Proposition 65 were due by May 3, 2021. The public had until May 10, 2021, to submit information relevant to the assessment of the carcinogenicity of PFOS and the reproductive toxicity of PFDA, PFHxS, PFNA, and PFUnDA. In November 2017, OEHHA listed PFOA and PFOS as chemicals known to cause reproductive toxicity under Proposition 65. Proposition 65 requires businesses to provide warnings to Californians about significant exposures to chemicals that cause cancer, birth defects or other reproductive harm. Proposition 65 also prohibits California businesses from knowingly discharging significant amounts of listed chemicals into sources of drinking water.

PFOA, PFOS, and PFBS have not been detected in Metropolitan's imported or treated water supplies. In 2019, Metropolitan detected in its supplies low levels of PFHxA, which is not acutely toxic or carcinogenic and is not currently regulated in California or at the federal level. No other PFAS have been detected in Metropolitan imported or treated supplies. However, PFOA and PFOS have been detected in groundwater wells in the region, including those of certain member agencies. Metropolitan may experience increased demands for its imported water to help offset the potential loss of any affected local supplies. Metropolitan has not yet evaluated potential PFBS impacts on its member agencies' sources. On January 19, 2021, the USEPA announced that it is considering whether to designate PFOA and PFOS as hazardous substances under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 and/or hazardous waste under the Resource Conservation and Recovery Act. On February 22, 2021, the USEPA announced its proposed revisions to the Unregulated Contaminant Monitoring Rule (UCMR 5) for public water systems which includes monitoring for 29 PFAS in drinking water. The proposal would require pre-sampling preparations in 2022, sample collection from 2023-2025, and reporting of final results through 2026. Comments on the USEPA's proposal will be due within 60 days after it is published in the Federal Register. On March 3, 2021, USEPA published its final regulatory determination to regulate PFOA and PFOS in drinking water. EPA has 24 months to propose maximum contaminant level goals (MCLG) and MCLs for PFOA and PFOS. Following that deadline, EPA has 18 months to publish final MCLGs and MCLs for PFOA and PFOS. Metropolitan will continue to monitor and participate in federal and state rulemaking proceedings.

Metropolitan is currently operating in compliance with all state and federal drinking water regulations and permit requirements.

Seismic Considerations and Emergency Response Measures

General. Although the magnitude of damages resulting from a significant seismic event are impossible to predict, Metropolitan's water conveyance and distribution facilities are designed either to withstand a maximum probable seismic event or to minimize the potential repair time in the event of damage. The five pumping plants on the CRA have been buttressed to better withstand seismic events. Other components of the CRA are monitored for any necessary rehabilitation and repair. Metropolitan personnel and independent consultants periodically reevaluate the internal water distribution system's vulnerability to earthquakes. As facilities are evaluated and identified for seismic retrofitting, they are prioritized, with those facilities necessary for delivering or treating water scheduled for upgrade before non-critical facilities. However, major portions of the California Aqueduct and the CRA are located near major earthquake faults, including the San Andreas Fault. A significant earthquake could damage structures and interrupt the supply of water, adversely affecting Metropolitan's revenues and its ability to pay its obligations. Therefore, emergency supplies are stored for use throughout Metropolitan's service area, and a six-month reserve

supply of water normally held in local storage (including emergency storage in Diamond Valley Lake) provides reasonable assurance of continuing water supplies during and after such events (assuming there has been no impairment of Metropolitan's internal distribution network).

Metropolitan has an ongoing surveillance program that monitors the safety and structural performance of its 20 dams and reservoirs permitted by DWR's Division of Safety of Dams. Operating personnel perform regular inspections that include monitoring and analyzing seepage flows and pressures. Engineers responsible for dam safety review the inspection data and monitor the horizontal and vertical movements for each dam. Major on-site inspections are performed at least twice each year. Instruments that transmit seismic acceleration time histories for analysis any time a dam is subjected to strong motion during an earthquake are located at a number of selected sites.

Metropolitan has developed an emergency plan that calls for specific levels of response appropriate to an earthquake's magnitude and location. Included in this plan are various communication tools, as well as a structured plan of management that varies with the severity of the event. Pre-designated personnel follow detailed steps for field facility inspection and distribution system patrol. Approximately 40 employees are designated to respond immediately under certain identifiable seismic events. An emergency operations center is maintained at the OCC. The OCC, which is specifically designed to be earthquake resistant, contains communication equipment, including a radio transmitter, microwave capability and a response line linking Metropolitan with its member agencies, DWR, other utilities and the State's Office of Emergency Services.

Metropolitan, in conjunction with DWR and LADWP, has formed the Seismic Resilience Water Supply Task Force for the purpose of collaborating on studies and mitigation measures aimed at improving the reliability of imported water supplies to Southern California. Specific task force goals included revisiting historical assumptions regarding potential aqueduct outages after a seismic event; establishing a common understanding about individual agency aqueduct vulnerability assessments, projected damage scenarios, and planning assumptions; and discussing ideas for improving the resiliency of Southern California's imported water supplies through multi-agency cooperation. The task force has established multi-year goals and will continue to meet on these issues and develop firm plans for mitigating seismic vulnerabilities.

Metropolitan's resiliency efforts include manufacturing, pipe fabrication and coating capabilities in La Verne, California. Over \$47 million has been invested to enhance and expand Metropolitan's capacity to provide fabrication, manufacturing, and coating services for rehabilitation work, maintenance activities, and capital projects. Upon request, Metropolitan is also able to provide manufacturing, coating and fabrication services through reimbursable agreements to member agencies, and DWR. These agreements have enhanced timely and cost-effective emergency response capabilities. Materials to fabricate pipe and other appurtenant fittings are kept on site. In the event of earthquake damage, Metropolitan has taken measures to provide the design and fabrication capacity to fabricate pipe and manufacture fittings. Metropolitan is also staffed to perform emergency repairs and has pre-qualified contractors for emergency repair needs at various locations throughout Metropolitan's service area.

State Water Project Facilities-California Aqueduct. The California Aqueduct crosses all major faults either by canal at ground level or by pipeline at very shallow depths to ease repair in case of damage from movement along a fault. State Water Project facilities are designed to withstand major earthquakes along a local fault or the San Andreas Fault without major damage. Dams, for example, are designed to accommodate movement along their foundations and to resist earthquake forces on their embankments. Earthquake loads have been taken into consideration in the design of project structures such as pumping and power plants. The location of check structures on the canal allows for hydraulic isolation of the fault-crossing repair. While the dams, canals, pump stations and other constructed State Water Project facilities have been designed to withstand earthquake forces, the critical supply of water from Northern California must traverse the Bay-Delta through hundreds of miles of varying levels of engineered levees that are susceptible to major failures due to flood and seismic risk. In the event of a failure of the Bay-Delta levees, the quality of the Bay-

Delta's water could be severely compromised as saltwater comes in from the San Francisco Bay. Metropolitan's supply of State Water Project water would be adversely impacted if pumps that move Bay-Delta water southward to the Central Valley and Southern California are shut down to contain the saltwater intrusion. Metropolitan estimates that stored water supplies, CRA supplies and local water resources that would be available in case of a levee breach or other interruption in State Water Project supplies would meet demands in Metropolitan's service area for approximately twelve months. See "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in this Appendix A.

Metropolitan, in cooperation with the other State Water Contractors, developed recommendations to DWR for emergency preparedness measures to maintain continuity in export water supplies and water quality during seismic and other emergency events. These measures include improvements to emergency construction materials stockpiles in the Bay-Delta, improved emergency contracting capabilities, strategic levee improvements and other structural measures of importance to Bay-Delta water export interests, including development of an emergency freshwater pathway to export facilities in a severe earthquake. DWR utilized \$12 million in fiscal year 2007-08 for initial stockpiling of rock for emergency levee repairs and development of Bay-Delta land and marine loading facilities and has identified future funding for expanded stockpiles.

State Water Project-Perris Dam. DWR's Perris Dam forms Lake Perris, the southernmost terminal reservoir for the State Water Project in Riverside County, with maximum capacity of approximately 130,000 acre-feet of water. Metropolitan uses water from Lake Perris for delivery to customers in Riverside and San Diego counties. Deliveries from the lake are used as a redundant source for the Mills Water Treatment Plant, drought supply from a flexible storage account, and for consumptive use by Metropolitan's customers. After seismic studies concluded in 2005 that DWR's Perris Dam facility could experience damage from moderate earthquakes along the San Jacinto or San Andreas faults due to potential weaknesses in the dam's foundation, DWR lowered the water level in the reservoir by about 25 feet and reduced the amount of water stored in the reservoir to about 75,000 acre-feet as DWR evaluated alternatives for repair of the dam. Following completion of environmental review and design work in 2011, DWR undertook a major retrofit to Perris Dam to improve its seismic stability and designed to restore the reservoir to its historical level. Repair work was completed in April 2018. Upgrades included strengthening the foundation and adding 1.4 million cubic yards of embankment at the 130-foot tall, earthen dam. In February 2021 DWR completed arbitration of contractor claims. The final repair costs, inclusive of environmental and right-of-way work is \$145 million. Following completion of the work, DWR began to refill Lake Perris in March 2018 to allow the dam to be tested and certified to again store 130,000 acre-feet of water. Under the original allocation of joint costs for this facility, the State would have paid approximately six percent of the repair costs. However, because of the recreational benefit this facility provides to the public, the Legislature has approved a recommendation from DWR that the State assume 32.2 percent of these repair costs. The remaining 67.8 percent of repairs costs are being paid for by the three agencies that use the water stored in Lake Perris: Metropolitan (42.9 percent), DWA (3.0 percent) and CVWD (21.9 percent). DWR recovers the cost of repairs through its annual statement of charges sent to each agency. See "METROPOLITAN EXPENSES—State Water Contract Obligations" in this Appendix A.

The dam remediation is one of three major projects to improve seismic stability and enhance public safety in the Perris Dam Remediation Program. The other two projects include the Outlet Tower Improvements project and the Emergency Release Facility ("ERF") project. Construction on the Outlet Tower Improvements project began October 2, 2019. Work on the outlet tower bridge, with modifications to bridge support, bridge seat, end diaphragm, and installation of stiffener plates, is planned for completion in early 2022. The final EIR for the ERF project was certified and approved by DWR in May 2018. Since then, modifications to the ERF project have been identified and the Addendum No. 1 to the EIR was published in September 2020. The ERF project includes improvements downstream of the reservoir that would direct the flow of water in an emergency requiring the dewatering of the reservoir. Flows would be directed through a series of berms and lined and unlined channels that would ultimately terminate at the Riverside County Flood

Control and Water Conservation District's Perris Valley Channel. The ERF project is planned to be completed in 2023. The Outlet Tower Improvements and ERF projects enhance the safety of the dam for other risks in addition to that posed by earthquakes. It is anticipated that costs will be shared in the same manner as for the Lake Perris dam remediation project. DWR's current estimate for repair costs (including the share of costs to be assumed by the State) is \$27.1 million for the Outlet Tower Improvements project and \$53.7 million for the ERF project (of which Metropolitan's anticipated share would be 42.9 percent).

Security Measures

Metropolitan conducts ground and air patrols of the CRA and monitoring and testing at all treatment plants and along the CRA. Similarly, DWR has in place security measures reasonably designed to protect critical facilities of the State Water Project, including both ground and air patrols of the State Water Project.

Although Metropolitan has constructed redundant systems and other safeguards to ensure its ability to continually deliver water to its customers, and DWR has made similar efforts, a terrorist attack or other security breach against water facilities could materially impair Metropolitan's ability to deliver water to its customers, its operations, and revenues and its ability to pay its obligations.

CAPITAL INVESTMENT PLAN

General Description

Metropolitan's current Capital Investment Plan (the "Capital Investment Plan" or "CIP") involves infrastructure and system reliability projects, either as upgrades to existing capital assets or replacements and refurbishments of existing facilities, to ensure reliability as well as enhance operational efficiency and flexibility, and comply with water quality regulations. Metropolitan's CIP is regularly reviewed and updated. Metropolitan's biennial budget process includes a review of the projected long-term capital needs and the development of a capital expenditure forecast for the ten-year financial forecast, as well as the identification of the capital priorities of Metropolitan over the biennial budget term. While the award of major contracts and professional services agreements are subject to approval by Metropolitan's Board, in October 2018 the Board amended the Administrative Code to update the process for appropriating funds and authorizing work to proceed for capital projects. Under the revised process, following the adoption of the biennial budget, a Board action is presented to (1) appropriate the total amount of approved biennial CIP expenditures and (2) authorize the General Manager to initiate and proceed with all work on projects that have been included in the CIP for such biennial period. The new appropriation process has resulted in faster implementation of capital projects. The amount and timing of borrowings to fund capital expenditures will depend upon, among other factors, status of construction activity and water demands within Metropolitan's service area. From time to time, projects that have been undertaken are delayed, redesigned or deferred by Metropolitan for various reasons, and no assurance can be given that a project in the CIP will be completed in accordance with its original schedule or that any project will be completed as currently planned. In addition, from time to time, when circumstances warrant, Metropolitan's Board may approve capital expenditures other than or in addition to those contemplated by the CIP at the time of the then current biennial budget.

Projection of Capital Investment Plan Expenditures

The table below sets forth the projected CIP expenditures by project type for the fiscal years ending June 30, 2021 through 2025, as currently projected for fiscal years 2020-21 and 2021-22, and as reflected in the biennial budget for fiscal years 2020-21 and 2021-22 for fiscal years 2022-2023 through 2024-25. The projection for the current biennium, which covers fiscal years 2020-21 and 2021-22, is updated every month to reflect the most current changes to planned expenditures. The biennial budget is updated every two years as a result of the periodic review and adoption of the capital budget by Metropolitan's Board. See "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

**CAPITAL INVESTMENT PLAN
PROJECTION OF EXPENDITURES⁽¹⁾
(Fiscal Years Ended June 30 - Dollars in Thousands)**

	2021	2022	2023	2024	2025	Total
Infrastructure R&R	\$127,600	\$100,500	\$124,500	\$147,700	\$147,900	\$ 648,200
Infrastructure Upgrade	130,300	81,400	127,300	127,200	135,700	604,900
Regulatory Compliance	1,100	500	1,000	500	400	3,500
Stewardship	4,600	3,900	7,600	10,000	8,000	34,100
Supply Reliability	300	0	200	100	3,400	4,000
System Flexibility	15,400	20,200	34,700	0	0	70,300
Water Quality	7,500	2,300	4,700	14,500	4,600	33,600
Total	\$286,800⁽²⁾	\$208,800⁽²⁾	\$300,000	\$300,000	\$300,000	\$1,395,600

Source: Metropolitan.

⁽¹⁾ Fiscal years 2020-21 and 2021-22 are based on current projections. Fiscal years 2022-23 through 2024-25 are based on the ten-year financial forecast provided in the biennial budget for fiscal years 2020-21 and 2021-22.

⁽²⁾ Planned capital expenditures of \$250 million per year were appropriated for fiscal years 2020-21 and 2021-22. Projected capital expenditures for fiscal years 2020-21 and 2021-22 in the table above reflect current projections as to the timing of expenditure of the \$500 million of appropriated funds.

In developing the CIP, projects are reviewed, scored and prioritized towards the objectives of ensuring the sustainable delivery of reliable, high-quality water, while meeting all regulatory requirements and maintaining affordability. Additional capital costs may arise in the future as a result of, among other things, federal and State water quality regulations, project changes and mitigation measures necessary to satisfy environmental and regulatory requirements, and additional facilities' needs. See "METROPOLITAN'S WATER DELIVERY SYSTEM-Water Quality and Treatment" in this Appendix A.

Construction projects included in the CIP are subject to ordinary construction risks and delays, including but not limited to: inclement weather or natural hazards affecting work and timeliness of completion; contractor claims or nonperformance; work stoppages or slowdowns; unanticipated project site conditions encountered during construction; errors or omissions in contract documents requiring change orders; and/or higher than anticipated construction bids or costs, any of which could affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors, and result in increased CIP costs. The construction schedules for certain Metropolitan projects were initially delayed as a result of the COVID-19 outbreak and, although not currently anticipated, additional delays in the future are possible. See "INTRODUCTION-COVID-19 Pandemic."

Capital Investment Plan Financing

The CIP requires funding from debt financing (see "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A) as well as from pay-as-you-go funding. In connection with the biennial budget process and the development of the ten-year financial forecast provided therein, an internal funding objective is established for the funding of capital program expenditures from current revenues. An internal funding objective to fund 55 to 60 percent of capital program expenditures from current revenues was established in connection with the adoption of the biennial budget for fiscal years 2020-21 and 2021-22. This objective is updated every two years as a result of the periodic review and adoption of the capital budget by Metropolitan's Board. The remainder of capital program expenditures are expected to be funded through the issuance from time to time of water revenue bonds, which are payable from Net Operating Revenues. However, as in prior years, pay-as-you-go or debt funding may be reduced or increased by the Board during the fiscal year.

Projections for fiscal years 2020-21 through 2024-25 assume the issuance of approximately \$585 million (including Metropolitan's 2021 Series A Bonds) in additional water revenue bonds over such period

to finance the CIP. These revenue bonds may be issued either as Senior Revenue Bonds under the Senior Debt Resolutions or as Subordinate Revenue Bonds under the Subordinate Debt Resolutions (each as defined under “METROPOLITAN EXPENSES—Limitations on Additional Revenue Bonds” in this Appendix A). The cost of these projected bond issues is reflected in the financial projections under “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A.

Major Projects of Metropolitan’s Capital Investment Plan

Colorado River Aqueduct Facilities. As previously noted, deliveries through the CRA began in 1941. Through annual inspections and maintenance activities, the performance and reliability of the various components of the CRA are regularly evaluated. Projects under the CRA facilities program are designed to replace or refurbish facilities and components on the CRA system in order to reliably convey water from the Colorado River to Southern California. A variety of projects have been completed over the past 10 years, including, among other things, replacement of the uninterrupted power supply system at each of the five pumping plants, replacement of high voltage circuit breakers and transformers at the five pumping plant switchyards, refurbishment of operators and power centers on the head gates downstream of the pumping plants, replacement of several miles of deteriorated concrete canal liner, new wastewater systems at the Hinds and Eagle Mountain Pumping Plants, replacement of the sand trap facilities upstream of the Hinds, Eagle Mountain, and Iron Mountain pumping plants, and replacement of the outlet gates and appurtenant electrical, mechanical, and control systems at the Copper Basin Reservoir. Projects currently underway include radial gates replacement along the CRA, rehabilitation of the Gene Wash Reservoir discharge structure, and projects to refurbish or replace electrical and mechanical system components at each of the five pumping plants, including power cables, overhead cranes, and sump systems. Additionally, many of the mechanical and electrical components, including the nine main pumps and motors at each of the five pumping plants will be evaluated and replaced or refurbished over the next several years. To facilitate efficient execution of the pump and motor replacement or refurbishment, new isolation coupling assemblies have been installed at each of the pump discharge pipelines at all five pumping plants during February 2021 CRA shutdown. The current projected cost estimate for all prior and planned refurbishment or replacement projects under the CRA facilities program is \$762.8 million. Costs through February 2021 were \$365.6 million. Budgeted aggregate capital expenditures for improvements on the CRA for fiscal years 2020-21 and 2021-22 are \$107.4 million.

Distribution System – Prestressed Concrete Cylinder Pipe. Metropolitan’s distribution system is comprised of approximately 830 miles of pipelines ranging in diameter from 30 inches to over 200 inches. (See “METROPOLITAN’S WATER DELIVERY SYSTEM” in this Appendix A.) 163 miles of the distribution system is made up of prestressed concrete cylinder pipe (“PCCP”). In response to PCCP failures experienced by several water agencies, Metropolitan initiated the PCCP Assessment Program in December 1996 to evaluate the condition of Metropolitan’s PCCP lines and investigate inspection and refurbishment methods. As a result, Metropolitan has identified and made improvements to several sections of PCCP. The costs for these improvements through February 2021 were \$100.7 million. Rather than continue to make spot repairs to pipe segments, Metropolitan has initiated a long-term capital program to rehabilitate approximately 100 miles of PCCP in five pipelines by relining with a welded steel liner. The first two major contracts to reline approximately 6.4 miles of PCCP on the Second Lower Feeder have been completed. The third major contract to reline an additional approximately 4.5 miles of PCCP on the Second Lower Feeder was awarded in May 2019 and is estimated to be completed by spring 2021. As a change order to the same contract, an additional approximately 2,900 feet of re-lining of PCCP on the Second Lower Feeder was completed in late 2020. Subsequent contracts are planned to be awarded annually depending on shutdown scheduling. In order to meet the critical timing of the relining projects, the steel pipe lining sections for the next contract are being purchased in advance. Costs through February 2021 for all PCCP work (including the \$100.7 million of repairs costs noted above) were \$284.3 million. The estimated cost to reline all 100 miles of PCCP is approximately \$2.2 billion and is expected to be undertaken over a period of approximately 20 years. Budgeted aggregate capital expenditures for PCCP rehabilitation for fiscal years 2020-21 and 2021-22 are \$53.9 million.

Distribution System – Refurbishments and Improvements. In addition to the long-term program to rehabilitate Metropolitan's PCCP lines, several other components of the distribution system including dams and reservoirs are being refurbished and/or improved. Major projects completed to date include the \$70 million replacement of the outlet facilities at Lake Mathews, the first two phases of the Orange County Feeder and Etiwanda Pipeline relining projects for a total of \$34 million, and various other facility refurbishment and replacement projects ranging in cost from approximately \$500,000 to over \$10 million. Ongoing projects to ensure the reliability of the distribution system, primarily due to age, include multiple replacements or refurbishments of isolation and control valves and gates, lining replacement of remaining portions of the Etiwanda Pipeline and Orange County Feeder, refurbishment to pressure control and hydroelectric power facilities, system improvements to provide drought relief, replacement of finished water reservoir covers and liners, upgrading dam monitoring systems, and various other upgrades totaling approximately \$472.5 million through February 2021. The current projected cost estimate for the prior and planned refurbishment or replacement projects, other than the PCCP relining, is \$1.4 billion. For fiscal years 2020-21 and 2021-22, budgeted aggregate capital expenditures for refurbishing and improvements on the distribution system, other than PCCP rehabilitation, are \$123.7 million.

System Reliability. System Reliability projects are implemented at facilities throughout Metropolitan's system to utilize new processes or technologies, to improve safety, or to increase overall reliability. Significant projects in this category include seismic strengthening of Metropolitan's headquarters building, construction or improvement of operations support facilities such as the La Verne machine and fabrication shops, security system enhancements, and information technology infrastructure projects. The total estimated cost for all prior and projected system reliability improvements under this program is approximately \$552.3 million, with \$253.2 million spent through February 2021. Budgeted aggregate capital expenditures for improvements on system reliability projects for fiscal years 2020-21 and 2021-22 are \$97.4 million.

F.E. Weymouth Treatment Plant Improvements. The Weymouth Treatment Plant, built in 1938, is Metropolitan's oldest water treatment facility. It has been subsequently expanded several times since its original construction. Metropolitan has completed several upgrades and refurbishment/replacement projects to maintain the plant's reliability and improve its efficiency. These include power systems upgrades, residual solids dewatering facility, refurbishment/replacement of the mechanical equipment in two of the eight flocculation and settling basins, a new plant maintenance facility, new chemical feed systems and storage tanks, replacement of the plant domestic/fire water system, seismic upgrades to the plant inlet structure and filter buildings, upgrades to the plants filters, and a new chlorine handling and containment facility. Significant projects over the next several years include refurbishment of four of the plant's settling basins and strengthening inlet channels to the basins, seismic retrofits to the administration building, and replacement of the valves used to control filter operation. The cost estimate for all prior and projected improvements at the Weymouth plant, not including the ozone facilities, is approximately \$453.8 million, with \$304.1 million spent through February 2021. Budgeted aggregate capital expenditures for improvements at the Weymouth plant for fiscal years 2020-21 and 2021-22 are \$18.7 million.

Robert B. Diemer Treatment Plant Improvements. The Diemer Treatment Plant, built in 1963 and subsequently expanded in 1968, is Metropolitan's second oldest water treatment facility. Several upgrades and refurbishment/replacement projects have been completed at the Diemer plant, including power system upgrades, a new residual solids dewatering facility, new vehicle and plant maintenance facilities, new chemical feed systems and storage tanks, a new chlorine handling and containment facility, construction of a roller-compacted concrete slope stabilization system, a new secondary access road, and upgrades to half of the plant's settling basins and filter valves. Significant projects over the next several years include the completion of refurbishment of the plant's settling basins and replacement of the valves used to control filter operation, and seismic retrofits to the filter buildings. The current cost estimate for all prior and projected improvements at the Diemer plant, not including the ozone facilities, is approximately \$432.1 million, with \$319.3 million spent through February 2021. Budgeted aggregate capital expenditures for improvements at the Diemer plant for fiscal years 2020-21 and 2021-22 are \$22.9 million.

METROPOLITAN REVENUES

General

Until water deliveries began in 1941, Metropolitan's activities were, by necessity, supported entirely through the collection of *ad valorem* property taxes. Since the mid-1980s, water revenues, which includes revenues from water sales, wheeling and exchanges, have provided approximately 80 percent of total revenues annually. In that time period, *ad valorem* property taxes have accounted for about 10 percent of total revenues, and in fiscal year 2019-20, *ad valorem* property taxes accounted for approximately 10 percent of total revenues. See “Revenue Allocation Policy and Tax Revenues.” The remaining revenues have been derived principally from the sale of hydroelectric power, interest on investments and additional revenue sources (water standby charges and availability of service charges) beginning in 1992. *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the water revenue bonds issued by Metropolitan.

The basic rate for untreated water service for domestic and municipal uses is \$777 per acre-foot at the Tier 1 level, which became effective January 1, 2021. See “Rate Structure” and “Water Rates.” The *ad valorem* tax rate for Metropolitan purposes has gradually been reduced from a peak equivalent rate of 0.1250 percent of full assessed valuation in fiscal year 1945-46 to 0.0035 percent of full assessed valuation for fiscal year 2020-21. The rates charged by Metropolitan represent the cost of Metropolitan’s wholesale water service to its member agencies, and not the cost of water to the ultimate consumer. Metropolitan does not exercise control over the rates charged by its member agencies or their subagencies to their customers.

Summary of Revenues by Source

The following table sets forth Metropolitan’s sources of revenues for the five fiscal years ended June 30, 2020, on a modified accrual basis. All information is unaudited. Audited financial statements for the fiscal years ended June 30, 2020 and June 30, 2019 are included in APPENDIX B—“THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITORS’ REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019 AND BASIC FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2021 AND 2020 (UNAUDITED).”

SUMMARY OF REVENUES BY SOURCE⁽¹⁾
Fiscal Years Ended June 30
(Dollars in Millions)

	2016	2017	2018	2019	2020
Water Revenues ⁽²⁾	\$1,166	\$1,151	\$1,285	\$1,149	\$1,188
Taxes, Net ⁽³⁾	108	116	131	145	147
Additional Revenue Sources ⁽⁴⁾	200	184	172	170	165
Interest on Investments	18	4	8	34	20
Hydroelectric Power Sales	7	21	24	18	16
Other Revenues ⁽⁵⁾	245	51	28	22	14
Total Revenues	<u>\$1,744</u>	<u>\$1,527</u>	<u>\$1,648</u>	<u>\$1,538</u>	<u>\$1,550</u>

Source: Metropolitan.

⁽¹⁾ Does not include any proceeds from the sale of bonded indebtedness.

⁽²⁾ Water revenues include revenues from water sales, exchanges, and wheeling.

⁽³⁾ *Ad valorem* taxes levied by Metropolitan are applied solely to the payment of outstanding general obligation bonds of Metropolitan and to State Water Contract obligations.

⁽⁴⁾ Includes revenues derived from water standby charges, readiness-to-serve, and capacity charges.

⁽⁵⁾ Includes miscellaneous revenues and Build America Bonds (BABs) subsidy payment of \$12.3 million, \$9.8 million, \$15.0 million, \$12.5 million, and \$2.9 in fiscal years 2015-16 through 2019-20, respectively. Fiscal years 2015-16, 2016-17, and 2017-18, include \$222 million, \$33 million, and \$1 million, respectively, of water conservation and supply program expenses, funded from a like amount of funds transferred from the Water Management Fund.

Revenue Allocation Policy and Tax Revenues

The Board determines the water revenue requirement for each fiscal year after first projecting the *ad valorem* tax levy for that year. The tax levy for any year is subject to limits imposed by the State Constitution, the Act and Board policy and to the requirement under the State Water Contract that in the event that Metropolitan fails or is unable to raise sufficient funds by other means, Metropolitan must levy upon all property within its boundaries not exempt from taxation a tax or assessment sufficient to provide for all payments under the State Water Contract. See “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A. Beginning with fiscal year 1990-91, the Act limits Metropolitan’s tax levy to the amount needed to pay debt service on Metropolitan’s general obligation bonds and to satisfy a portion of Metropolitan’s State Water Contract obligation. However, Metropolitan has authority to impose a greater tax levy if, following a public hearing, the Board finds that such revenue is essential to Metropolitan’s fiscal integrity. For each fiscal year since 2013-14, the Board has exercised that authority and voted to suspend the tax limit clause in the Act, maintaining the fiscal year 2012-13 *ad valorem* tax rate to pay for a greater portion of Metropolitan’s State Water Contract obligations. Any deficiency between tax levy receipts and Metropolitan’s State Water Contract obligations is expected to be paid from Operating Revenues, as defined in the Senior Debt Resolutions (defined in this Appendix A under “METROPOLITAN EXPENSES—Limitations on Additional Revenue Bonds”).

The COVID-19 pandemic has negatively affected economic activity throughout the U.S., including within the Southern California region. These negative impacts may reduce or otherwise negatively affect future property tax values within Metropolitan’s service area and/or Metropolitan’s tax levy receipts. The assumptions underlying Metropolitan’s financial projections for fiscal years 2020-21 through 2024-25 include modest annual increases in assessed valuation over the five-year projection period that are significantly below the average annual assessed valuation increases actually observed, and property tax delinquency rates that are significantly in excess of the property tax delinquency rate actually experienced, over the five fiscal years 2014-15 through 2018-19, which is expected to help abate the financial effects of such COVID-19 impacts if they occur. See “INTRODUCTION—COVID-19 Pandemic.”

Water Revenues

General; Authority. Water rates are established by the Board and are not subject to regulation or approval by the California Public Utilities Commission or by any other local, State or federal agency. In accordance with the Act, water rates must be uniform for like classes of service. Metropolitan, a wholesaler, provides two types of services: full-service water service (treated or untreated) and wheeling service. See “—Classes of Water Service.”

No member agency of Metropolitan is obligated to purchase water from Metropolitan. However, 21 of Metropolitan’s 26-member agencies have entered into 10-year voluntary water supply purchase orders (“Purchase Orders”) effective through December 31, 2024. See “—Member Agency Purchase Orders.” Consumer demand and locally supplied water vary from year to year, resulting in variability in water revenues. See “REGIONAL WATER RESOURCES” in this Appendix A. Metropolitan uses its financial reserves and budgetary tools to manage the financial impact of the variability in revenues due to fluctuations in annual water transactions. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A.

Payment Procedure. Water is delivered to the member agencies on demand and is metered at the point of delivery. Member agencies are billed monthly and a late charge of one percent of the delinquent payment is assessed for a payment that is delinquent for no more than five business days. A late charge of two percent of the amount of the delinquent payment is charged for a payment that is delinquent for more than five business days for each month or portion of a month that the payment remains delinquent. Metropolitan has the authority to suspend service to any member agency delinquent for more than 30 days.

Delinquencies have been rare; in such instances late charges have been collected. No service has been suspended because of delinquencies.

Water Revenues. The following table sets forth water transactions (which includes water sales, exchanges, and wheeling) in acre-feet and water revenues (which includes revenues from water sales, exchanges, and wheeling) for the five fiscal years ended June 30, 2020, on a modified accrual basis. As reflected in the table below, water revenues for the fiscal year ended June 30, 2020 aggregated \$1,188.0 million, of which \$1,047.9 million was generated from water sales and \$140.1 million was generated from exchanges and wheeling. Water revenues of Metropolitan for the fiscal years ended June 30, 2020 and June 30, 2019, on an accrual basis, are shown in Metropolitan's audited financial statements included in Appendix B.

SUMMARY OF WATER TRANSACTIONS AND REVENUES
Fiscal Years Ended June 30

Year	Water Transactions in Acre-Feet ⁽¹⁾	Water Revenues ⁽²⁾ (in millions)	Dollars Per Acre-Foot	Average Dollars Per 1,000 Gallons
2016	1,624,861	\$1,166.0	\$718	\$2.20
2017	1,540,915	1,150.5	747	2.29
2018	1,610,969	1,285.2	798	2.45
2019	1,418,324	1,148.7	810	2.49
2020	1,419,156	1,188.0	837	2.57

Source: Metropolitan.

⁽¹⁾ Water Transactions include water sales, exchanges, and wheeling with member agencies and third parties.

⁽²⁾ Water Revenues include revenues from water sales, exchanges, and wheeling. Water Revenues from wheeling and exchange transactions were \$84.3 million, \$87.4 million, \$96.1 million, \$102.2 million and \$140.1 million in the fiscal years ended June 30, 2016 through 2020, respectively.

Principal Customers

Total water transactions accrued for the fiscal year ended June 30, 2020, were 1.42 million acre-feet, generating \$1.19 billion in water revenues for such period. Metropolitan's ten largest water customers for the year ended June 30, 2020 are shown in the following table, on an accrual basis. SDCWA has filed litigation challenging Metropolitan's rates. See “—Litigation Challenging Rate Structure.”

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TEN LARGEST WATER CUSTOMERS
Year Ended June 30, 2020
Accrual Basis

Agency	Water Revenues ⁽¹⁾ (in Millions)	Percent of Total	Water Transactions in Acre-Feet ⁽²⁾	Percent of Total
San Diego CWA	\$ 187.3	15.8%	324,660	22.9%
MWD of Orange County	152.6	12.8	157,346	11.1
City of Los Angeles	129.0	10.9	148,022	10.4
West Basin MWD	119.7	10.1	112,636	7.9
Calleguas MWD	99.6	8.4	93,802	6.6
Eastern MWD	93.9	7.9	105,215	7.4
Three Valleys MWD	65.4	5.5	73,239	5.2
Western MWD of Riverside County	59.8	5.0	64,811	4.6
Inland Empire Utilities Agency	47.0	4.0	64,538	4.5
City of Long Beach	30.2	2.5	28,332	2.0
Total	\$ 984.5	82.9%	1,172,602	82.6%
Total Water Revenues⁽¹⁾	\$1,188.0	Total Acre-Feet⁽²⁾	1,419,156	

Source: Metropolitan.

⁽¹⁾ Water Revenues include revenues from water sales, exchanges, and wheeling.

⁽²⁾ Water Transactions include water sales, exchanges, and wheeling with member agencies and third parties.

Rate Structure

The following rates and charges are elements of Metropolitan's unbundled rate structure:

Tier 1 and Tier 2 Water Supply Rates. The rate structure recovers supply costs through a two-tiered price structure. The Tier 1 Supply Rate supports a regional approach through the uniform, postage stamp rate. The Tier 1 Supply Rate is calculated as the amount of the total supply revenue requirement that is not covered by the Tier 2 Supply Rate divided by the estimated amount of Tier 1 water sales. The Tier 2 Supply Rate is a volumetric rate that reflects Metropolitan's cost of purchasing water transfers north of the Delta. The Tier 2 Supply Rate encourages the member agencies and their customers to maintain existing local supplies and develop cost-effective local supply resources and conservation. Member agencies are charged the Tier 1 or Tier 2 Water Supply Rate for water purchases, as described under "–Member Agency Purchase Orders" below.

System Access Rate. The System Access Rate recovers the cost of the conveyance and distribution system that is used on an average annual basis through a uniform, volumetric rate. The System Access Rate is charged for each acre-foot of water transported by Metropolitan, regardless of the ownership of the water being transported. All users (including member agencies and third-party wheelers) using Metropolitan's water system to transport water pay the same System Access Rate for the use of the system conveyance and distribution capacity to meet average annual demands.

Water Stewardship Rate. The Water Stewardship Rate was designed to provide a dedicated source of funding for conservation and local resources development through a uniform, volumetric rate. The Water Stewardship Rate was charged on each acre-foot of water delivered by Metropolitan through December 31, 2020, except SDCWA Exchange Agreement deliveries as explained below, and is allocated to Metropolitan's transportation rates. All users (including member agencies and third-party wheelers) benefit from avoided system infrastructure costs through conservation and local resources development, and from the system capacity made available by investments in demand management programs like Metropolitan's Conservation Credits Program and Local Resources Program. Therefore, all users paid the Water Stewardship Rate, except on water delivered to SDCWA pursuant to the Exchange Agreement (see "METROPOLITAN REVENUES–Water Rates" and "–Litigation Challenging Rate Structure" in this Appendix A) in calendar years 2018,

2019, and 2020. The Water Stewardship Rate was not incorporated into Metropolitan's rates and charges for calendar years 2021 and 2022 and therefore has not been collected on any water transactions after December 31, 2020. See also "CONSERVATION AND WATER SHORTAGE MEASURES—General."

In *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.* (see “—Litigation Challenging Rate Structure” below), the Court of Appeal held that the administrative record before it for the rates in calendar years 2011 through 2014 did not support Metropolitan’s Water Stewardship Rate allocation to transportation rates, but the court did not address the allocation in subsequent years based on a different record. On April 10, 2018, the Board suspended the billing and collection of the Water Stewardship Rate on Exchange Agreement deliveries to SDCWA in calendar years 2018, 2019, and 2020, pending Metropolitan’s completion of a cost allocation study of its demand management costs recovered through the Water Stewardship Rate. For calendar year 2018, the suspension was retroactive to January 1, 2018. The total effect of the suspension, taking into consideration the lower revenues over the three calendar years, is estimated to be up to approximately \$46 million.

Having completed a demand management cost allocation process, on December 10, 2019, Metropolitan’s Board directed staff to incorporate the use of the 2019-20 fiscal year-end balance of the Water Stewardship Fund to fund demand management costs in the proposed biennial budget for fiscal years 2020-21 and 2021-22 and to not incorporate the Water Stewardship Rate (or any other rates or charges to recover demand management costs), with the proposed rates and charges for calendar years 2021 and 2022, to allow the Board to consider demand management funding in relation to the 2020 IRP and to undergo a rate structure refinement process. The balance of the Water Stewardship Fund as of June 30, 2020 was \$133 million, which based on the biennial budget for fiscal years 2020-21 and 2021-22, is expected to be sufficient to fund the demand management costs during the biennial budget period.

System Power Rate. The System Power Rate recovers the cost of energy required to pump water to Southern California through the State Water Project and CRA. The cost of power is recovered through a uniform, volumetric rate. The System Power Rate is applied to all deliveries of Metropolitan water to member agencies. All wheeling transactions are pursuant to individual contracts, which may typically provide for wheeling parties to pay for the actual cost (not system average) of power needed to move the water. For example, a party wheeling water through the California Aqueduct would pay the variable power cost associated with using the State Water Project transportation facilities.

Treatment Surcharge. The Treatment Surcharge recovers all of the costs of providing treatment capacity and operations through a uniform, volumetric rate per acre-foot of treated water transactions. The Treatment Surcharge is charged to all treated water transactions.

The amount of each of these rates since January 1, 2016, is shown in the table entitled “SUMMARY OF WATER RATES” under “—Water Rates” below.

Member Agency Purchase Orders

The current rate structure allows member agencies to choose to purchase water from Metropolitan by means of a Purchase Order. Purchase Orders are voluntary agreements that determine the amount of water that a member agency can purchase at the Tier 1 Supply Rate. Under the Purchase Orders, member agencies have the option to purchase a greater amount of water (based on past purchase levels) over the term of the Purchase Order. Such agreements allow member agencies to manage costs and provide Metropolitan with a measure of secure revenue.

In November 2014, the Metropolitan Board approved new Purchase Orders effective January 1, 2015 through December 31, 2024 (the “Purchase Order Term”). Twenty-one of Metropolitan’s 26-member agencies have Purchase Orders, which commit the member agencies to purchase a minimum amount of supply from Metropolitan (the “Purchase Order Commitment”).

The key terms of the Purchase Orders include:

- A ten-year term, effective January 1, 2015 through December 31, 2024;
- A higher Tier 1 limit based on the Base Period Demand, determined by the member agency's choice between (1) the Revised Base Firm Demand, which is the highest fiscal year purchases during the 13-year period of fiscal year 1989-90 through fiscal year 2001-02, or (2) the highest year purchases in the most recent 12-year period of fiscal year 2002-03 through 2013-14. The demand base is unique for each member agency, reflecting the use of Metropolitan's system water over time;
- An overall purchase commitment by the member agency based on the Demand Base period chosen, times ten to reflect the ten-year Purchase Order term. Those agencies choosing the more recent 12-year period may have a higher Tier 1 Maximum and commitment. The commitment is also unique for each member agency;
- The opportunity to reset the Base Period Demand using a five-year rolling average;
- Any obligation to pay the Tier 2 Supply Rate will be calculated over the ten-year period, consistent with the calculation of any Purchase Order commitment obligation; and
- An appeals process for agencies with unmet purchase commitments that will allow each acre-foot of unmet commitment to be reduced by the amount of production from a local resource project that commences operation on or after January 1, 2014.

Member agencies that do not have Purchase Orders in effect are subject to Tier 2 Supply Rates for amounts exceeding 60 percent of their base amount (equal to the member agency's highest fiscal year demand between 1989-90 and 2001-02) annually.

Other Charges

The following paragraphs describe the additional charges for the use of Metropolitan's distribution system:

Readiness-to-Serve Charge. The Readiness-to-Serve Charge ("RTS") recovers the cost of the portion of the system that is available to provide emergency service and available capacity during outages and hydrologic variability. The RTS is a fixed charge that is allocated among the member agencies based on a ten-fiscal year rolling average of firm demands. Water transfers and exchanges, except SDCWA Exchange Agreement transactions, are included for purposes of calculating the ten-fiscal year rolling average. The Standby Charge, described below, will continue to be collected at the request of a member agency and applied as a direct offset to the member agency's RTS obligation. The RTS (including RTS charge amounts collected through the Standby Charge described below) generated \$137.5 million in fiscal year 2017-18, \$136.5 million in fiscal year 2018-19, and \$134.5 million in fiscal year 2019-20. Based on the adopted rates and charges, the RTS (including RTS charge amounts expected to be collected through the Standby Charge described below) is projected to generate \$133.0 million in fiscal year 2020-21 and \$135.0 million in fiscal year 2021-22.

Water Standby Charges. The Standby Charge is authorized by the State Legislature and has been levied by Metropolitan since fiscal year 1992-93. Metropolitan will continue to levy the Standby Charge only within the service areas of the member agencies that request that the Standby Charge be utilized to help fund a member agency's RTS obligation. See "– Readiness-to-Serve Charge" above. The Standby Charge for each acre or parcel of less than an acre will vary from member agency to member agency, reflecting current rates, which have not exceeded the rates set in fiscal year 1993-94, and range from \$5 to \$15 for each acre or parcel less than an acre within Metropolitan's service area, subject to specified exempt categories. Standby charges are assessments under the terms of Proposition 218, a State constitutional ballot initiative approved

by the voters on November 5, 1996, but Metropolitan's current standby charges are exempt from Proposition 218's procedural requirements. See “—California Ballot Initiatives.”

Twenty-two of Metropolitan's member agencies collect their RTS charges through Standby Charges. RTS charges collected by means of such Standby Charges were \$41.6 million in fiscal year 2017-18, \$41.7 million in fiscal year 2018-19, and \$41.7 million in fiscal year 2019-20.

Capacity Charge. The Capacity Charge recovers costs incurred to provide peak capacity within Metropolitan's distribution system. The Capacity Charge provides a price signal to encourage agencies to reduce peak demands on the distribution system and to shift demands that occur during the May 1 through September 30 period into the October 1 through April 30 period. This results in more efficient utilization of Metropolitan's existing infrastructure and deferring capacity expansion costs. Each member agency will pay the Capacity Charge per cfs based on a three-year trailing peak (maximum) day demand, measured in cfs. Each member agency's peak day is likely to occur on different days; therefore, this measure approximates peak week demands on Metropolitan. The Capacity Charge was \$8,800 per cfs effective as of January 1, 2020 and was \$10,700 per cfs effective as of January 1, 2021. The Capacity Charge will be \$12,200 per cfs effective as of January 1, 2022. The Capacity Charge generated \$34.6 million in fiscal year 2017-18, \$33.0 million in fiscal year 2018-19, and \$30.5 million in fiscal year 2019-20. Based on the adopted rates and charges, the Capacity Charge is projected to generate \$32.3 million in fiscal year 2020-21 and \$40.5 million in fiscal year 2021-22.

Classes of Water Service

Metropolitan, a wholesaler, provides two types of services: full-service water service (treated or untreated) and wheeling service. Metropolitan has one class of customers: its member agencies. The level of rate unbundling in Metropolitan's rate structure provides transparency to show that rates and charges recover only those functions involved in the applicable service, and that no cross-subsidy of costs exists. Metropolitan's cost of service process and resulting unbundled rate structure ensures that its wholesale customers pay for only those services they elect to receive.

The applicable rate components and fixed charges for each class of water service are shown in the chart below.

Current Services and Rate Components

Service	Rates & Charges That Apply						
	System Access	Water Stewardship ⁽¹⁾	System Power	Tier 1/Tier 2	Readiness to Serve	Capacity Charge	Treatment Surcharge
Full Service Untreated	Yes	No	Yes	Yes	Yes	Yes	No
Full Service Treated	Yes	No	Yes	Yes	Yes	Yes	Yes
Wheeling Service ⁽²⁾	No ⁽²⁾	No ⁽²⁾	No ⁽²⁾⁽³⁾	No ⁽²⁾	No ⁽²⁾	No ⁽²⁾	No ⁽²⁾

⁽¹⁾ As described under “—Rate Structure –Water Stewardship Rate,” the Water Stewardship Rate has not been incorporated into Metropolitan's rates and charges for calendar years 2021 and 2022 and therefore has not been collected on water transactions after December 31, 2020.

⁽²⁾ In August 2020, the Board terminated the pre-set wheeling rate for transactions for a period of up to one year with member agencies, pursuant to Sections 4119 and 4405 of the Metropolitan Administrative Code. This change became effective on January 1, 2021. The price for wheeling to member agencies for transactions of up to one year will be established by contract on a case-by-case basis, as is currently the case for wheeling to member agencies for more than one year and wheeling to third parties.

⁽³⁾ Under Metropolitan's prior pre-set wheeling rate for wheeling service under Sections 4119 and 4405 of the Metropolitan Administrative Code, wheeling parties were required to pay for their own cost for power (if such power could be scheduled by Metropolitan) or were required to pay Metropolitan for the actual cost (not system average) of power service utilized for delivery of the wheeled water. In addition, wheeling parties were assessed an administration fee of not less than \$5,000 per transaction.

Metropolitan offers three programs that encourage the member agencies to increase groundwater and emergency storage and for which certain Metropolitan charges are inapplicable.

(1) *Conjunctive Use Program.* The Conjunctive Use Program is operated through individual agreements with member and retail agencies for groundwater storage within Metropolitan's service area. Wet-year imported supplies are stored to enhance reliability during dry, drought, and emergency conditions. Metropolitan has the option to call water stored in the groundwater basins for the participating member agency pursuant to its contractual conjunctive use agreement. At the time of the call, the member agency pays the prevailing rate for that water, but the deliveries are excluded from the calculation of the Capacity Charge because Conjunctive Use Program deliveries are made at Metropolitan's discretion. Conjunctive use programs may also contain cost-sharing terms related to operational costs. See "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

(2) *Cyclic Storage Program.* The Cyclic Storage Program refers collectively to the existing Cyclic Storage Program agreements and the Pre-Deliveries Program approved in 2019. The Program is operated through individual agreements with member agencies for groundwater or surface water storage or pre-deliveries within Metropolitan's service area. Wet-year imported supplies are stored to enhance reliability during dry, drought, and emergency conditions. Deliveries to the cyclic storage accounts are at Metropolitan's discretion while member agencies have discretion on whether they want to accept the water. At the time the water is delivered from the cyclic storage account, the prevailing full-service rate applies, but deliveries are excluded from the calculation of the Capacity Charge because Cyclic Storage Program deliveries are made at Metropolitan's discretion. Cyclic agreements may also contain a credit payable to the member agencies under terms approved by the Board in April 2019. See "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

(3) *Emergency Storage Program.* The Emergency Storage Program is used for delivering water for emergency storage in surface water reservoirs and storage tanks. Emergency Storage Program purposes include initially filling a newly constructed reservoir or storage tank and replacing water used during an emergency. Because Metropolitan could interrupt delivery of this water, Emergency Storage Program Deliveries are excluded from the calculation of the RTS Charge, the Capacity Charge, and the Tier 1 maximum.

The applicable rate components and fixed charges applicable for each such program are shown in the following chart.

Current Programs and Rate Components

Rates & Charges That Apply								
Program	Supply	System Access	Water Stewardship ⁽¹⁾	System Power	Readiness to Serve	Capacity Charge	Tier 1 Maximum	
Full Service	Yes	Yes	No	Yes	Yes	Yes	Yes	
Conjunctive Use	Yes	Yes	No	Yes	Yes	No	Yes	
Cyclic	Yes	Yes	No	Yes	Yes	No	Yes	
Emergency Storage	Yes	Yes	No	Yes	No	No	No ⁽²⁾	

⁽¹⁾ As described under "-Rate Structure –Water Stewardship Rate," the Water Stewardship Rate has not been incorporated into Metropolitan's rates and charges for calendar years 2021 and 2022 and therefore has not been collected on water transactions after December 31, 2020.

⁽²⁾ Emergency Storage Program pays the Tier 1 Supply Rate; purchases under Emergency Storage program do not count towards a member agency's Tier 1 Maximum.

Water Rates

The following table sets forth Metropolitan's water rates by category beginning January 1, 2016. See also "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES-Water Revenues" in this Appendix A. In addition to the base rates for untreated water sold in the different classes of service, the columns labeled "Treated" include the surcharge that Metropolitan charges for water treated at its water treatment plants. See "--Rate Structure" and "--Classes of Water Service" for descriptions of current rates. See also "--Litigation Challenging Rate Structure" for a description of litigation challenging Metropolitan's water rates.

SUMMARY OF WATER RATES (Dollars Per Acre-Foot)

	SUPPLY RATE	SYSTEM ACCESS RATE	WATER STEWARDSHIP RATE⁽¹⁾	SYSTEM POWER RATE	TREATMENT SURCHARGE	
	Tier 1	Tier 2				
January 1, 2016	\$156	\$290	\$259	\$41	\$138	\$348
January 1, 2017	\$201	\$295	\$289	\$52	\$124	\$313
January 1, 2018	\$209	\$295	\$299	\$55	\$132	\$320
January 1, 2019	\$209	\$295	\$326	\$69	\$127	\$319
January 1, 2020	\$208	\$295	\$346	\$65	\$136	\$323
January 1, 2021*	\$243	\$285	\$373	\$--	\$161	\$327
January 1, 2022*	\$243	\$285	\$389	\$--	\$167	\$344

	FULL SERVICE TREATED⁽²⁾	FULL SERVICE UNTREATED⁽³⁾		
	Tier 1	Tier 2	Tier 1	Tier 2
January 1, 2016	\$942	\$1,076	\$594	\$728
January 1, 2017	\$979	\$1,073	\$666	\$760
January 1, 2018	\$1,015	\$1,101	\$695	\$781
January 1, 2019	\$1,050	\$1,136	\$731	\$817
January 1, 2020	\$1,078	\$1,165	\$755	\$842
January 1, 2021*	\$1,104	\$1,146	\$777	\$819
January 1, 2022*	\$1,143	\$1,185	\$799	\$841

Source: Metropolitan.

* Rates effective January 1, 2021 and January 1, 2022 were adopted by Metropolitan's Board on April 14, 2020.

⁽¹⁾ As described under "--Rate Structure -Water Stewardship Rate," the Water Stewardship Rate has not been incorporated into Metropolitan's rates and charges for calendar years 2021 and 2022 and therefore has not been collected on water transactions after December 31, 2020.

⁽²⁾ Full service treated water rates are the sum of the applicable Supply Rate, System Access Rate, Water Stewardship Rate, System Power Rate and Treatment Surcharge.

⁽³⁾ Full service untreated water rates are the sum of the applicable Supply Rate, System Access Rate, Water Stewardship Rate and System Power Rate.

Financial Reserve Policy

Metropolitan's reserve policy provides for a minimum reserve requirement and target amount of unrestricted reserves at June 30 of each year. The minimum reserve requirement at June 30 of each year is equal to the portion of fixed costs estimated to be recovered by water revenues for the 18 months beginning

with the immediately succeeding July. Funds representing the minimum reserve requirement are held in the Revenue Remainder Fund. Any funds in excess of the minimum reserve requirement are held in the Water Rate Stabilization Fund. The target amount of unrestricted reserves is equal to the portion of the fixed costs estimated to be recovered by water revenues during the two years immediately following the 18-month period used to calculate the minimum reserve requirement. Funds in excess of the target amount are to be utilized for capital expenditures in lieu of the issuance of additional debt, or for the redemption, defeasance or purchase of outstanding bonds or commercial paper as determined by the Board. Provided that the fixed charge coverage ratio is at or above 1.2, amounts in the Water Rate Stabilization Fund may be expended for any lawful purpose of Metropolitan, as determined by the Board. See “CAPITAL INVESTMENT PLAN—Capital Investment Plan Financing” in this Appendix A.

At June 30, 2020, unrestricted reserves, which consist of the Water Rate Stabilization Fund and the Revenue Remainder Fund, totaled \$448 million on a modified accrual basis. As of June 30, 2020, the minimum reserve requirement was \$269.5 million, and the target reserve level was \$654.4 million.

Due to SDCWA’s litigation challenging Metropolitan’s rates and pursuant to the Exchange Agreement between Metropolitan and SDCWA, Metropolitan is required to set aside funds based on the quantities of exchange water that Metropolitan provides to SDCWA and the amount of charges disputed by SDCWA. In April 2016, Metropolitan transferred these funds from unrestricted financial reserves to a new designated fund, the Exchange Agreement Set-Aside Fund. As of March 31, 2021, Metropolitan held \$26.45 million in the Exchange Agreement Set-Aside Fund. This amount contains current disputed charges, after Metropolitan’s payment to SDCWA, on February 16, 2021, of the final judgment contract damages amount in the 2010 and 2012 SDCWA v. Metropolitan cases for Water Stewardship Rate payments under the Exchange Agreement in 2011 through 2014, plus interest. The amount currently held in the Exchange Agreement Set-Aside Fund contains the disputed Water Stewardship Rate payments under the Exchange Agreement from 2015 through 2017 and interest earned thereon based on the rate earned by Metropolitan’s investment portfolio. The amounts held do not include the attorneys’ fees or costs awards in the 2010 and 2012 cases, which the Exchange Agreement does not require to be held. Metropolitan ceased charging the Water Stewardship Rate under the Exchange Agreement in January 2018, and SDCWA has not filed litigation disputing charges after 2020, so amounts held pursuant to the Exchange Agreement will not continue to accumulate further disputed charges, but will continue to accumulate interest based on Metropolitan’s investment portfolio, until the litigation, including all appeals, is concluded. See “METROPOLITAN’S WATER SUPPLY—Colorado River Aqueduct—Metropolitan and San Diego County Water Authority Exchange Agreement” in this Appendix A. See also “—Litigation Challenging Rate Structure” below.

Metropolitan projects that its unrestricted reserves as of June 30, 2021 will be approximately \$510 million. This amount does not include funds held in the Exchange Agreement Set-Aside Fund. This projection is based on the assumptions set forth in the table entitled “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” under “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A. In addition, this projection is based on the assumption that Metropolitan’s Board will not authorize the use of any additional amounts in the unrestricted reserves.

California Ballot Initiatives

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters on November 5, 1996 adding Articles XIIIIC and XIIID to the California Constitution. Article XIIID provides substantive and procedural requirements on the imposition, extension or increase of any “fee” or “charge” levied by a local government upon a parcel of real property or upon a person as an incident of property ownership. As a wholesaler, Metropolitan serves water to its member agencies, not to persons or properties as an incident of property ownership. Thus, water rates charged by Metropolitan to its member agencies are not property related fees and charges and therefore are exempt from the requirements of Article

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

Article XIIID also imposes certain procedures with respect to assessments. Under Article XIIID, "standby charges" are considered "assessments" and must follow the procedures required for "assessments," unless they were in existence on the effective date of Article XIIID. Metropolitan has imposed its water standby charges since 1992 and therefore its current standby charges are exempt from the Article XIIID procedures. Changes to Metropolitan's current standby charges could require notice to property owners and approval by a majority of such owners returning mail-in ballots approving or rejecting any imposition or increase of such standby charge. Twenty-two of Metropolitan's member agencies have elected to collect all or a portion of their readiness-to-serve charges through standby charges. See "-Other Charges – Readiness-to-Serve Charge" and "- Water Standby Charges" above. Even if Article XIIID is construed to limit the ability of Metropolitan and its member agencies to impose or collect standby charges, the member agencies will continue to be obligated to pay the readiness-to-serve charges.

Article XIIIC makes all taxes either general or special taxes and imposes voting requirements for each kind of tax. It also extends the people's initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIIC to fees imposed after November 6, 1996 or to property-related fees and charges and absent other authority could result in retroactive reduction in existing taxes, assessments or fees and charges.

Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of "tax" in Article XIIIC of the California Constitution to include: levies, charges and exactions imposed by local governments, except for charges imposed for benefits or privileges or for services or products granted to the payor (and not provided to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation and are allocated in a fair or reasonable manner; fees for the use of local governmental property; fines and penalties imposed for violations of law; real property development fees; and assessments and property-related fees imposed under Article XIIID of the California Constitution. Special taxes imposed by local governments including special districts are subject to approval by two-thirds of the electorate. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. Metropolitan believes its water rates and charges are not taxes under Proposition 26. SDCWA's lawsuit challenging the rates adopted by Metropolitan in April 2012 (part of which became effective January 1, 2013 and part of which became effective January 1, 2014) alleged that such rates violate Proposition 26. On June 21, 2017, the California Court of Appeal ruled that whether or not Proposition 26 applies to Metropolitan's rates, the System Access Rate and System Power Rate challenged by SDCWA in such lawsuit comply with Proposition 26. See "-Litigation Challenging Rate Structure."

Propositions 218 and 26 were adopted as measures that qualified for the ballot pursuant to the State's initiative process. Other initiative measures have been proposed from time to time, including presently, or could be proposed in the future, which if qualified for the ballot, could be adopted, or legislative measures could be approved by the Legislature, which may place limitations on the ability of Metropolitan or its member agencies to increase revenues or to increase appropriations. Such measures may further affect Metropolitan's ability to collect taxes, assessments or fees and charges, which could have an effect on Metropolitan's revenues.

Preferential Rights

Section 135 of the Act gives each of Metropolitan's member agencies a preferential right to purchase for domestic and municipal uses within the agency a portion of the water served by Metropolitan, based upon a ratio of all payments on tax assessments and otherwise, except purchases of water, made to Metropolitan by the member agency compared to total payments made by all member agencies on tax assessments and otherwise since Metropolitan was formed, except purchases of water. Historically, these rights have not been

used in allocating Metropolitan's water. In 2004, the California Court of Appeal upheld Metropolitan's methodology for calculation of the respective member agencies' preferential rights under Section 135 of the Act. SDCWA's litigation challenging Metropolitan's rate structure also challenged Metropolitan's exclusion of payments for Exchange Agreement deliveries from the calculation of SDCWA's preferential right. On June 21, 2017, the California Court of Appeal held that SDCWA's payments under the Exchange Agreement must be included in the preferential rights calculation. See "–Litigation Challenging Rate Structure."

Litigation Challenging Rate Structure

SDCWA filed *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.* on June 11, 2010. The complaint alleged that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012, misallocate certain State Water Contract costs to the System Access Rate and the System Power Rate, and thus affect charges for transportation of water, resulting in an overcharge to SDCWA by at least \$24.5 million per year. The complaint alleged that all State Water Project costs should be allocated instead to Metropolitan's Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It stated additionally that Metropolitan will overcharge SDCWA by another \$5.4 million per year by including the Water Stewardship Rate in transportation charges.

The complaint requested a court order invalidating the rates adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with the State Water Contract and the Water Stewardship Rate to water supply rates and not to transportation rates. Rates in effect in prior years were not challenged in this lawsuit. SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims were for breach of the water Exchange Agreement between Metropolitan and SDCWA (described herein under "METROPOLITAN'S WATER SUPPLY–Colorado River Aqueduct – Metropolitan and San Diego County Water Authority Exchange Agreement") due to a price based on allegedly illegal rates; improper exclusion of SDCWA's payments under such Exchange Agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies (see "– Preferential Rights" above); and illegality of the rate structure integrity provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. The rate structure integrity provision permitted the Board to terminate incentives payable under conservation and local resources incentive agreements between Metropolitan and a member agency due to certain actions by the member agency to challenge the rates that are the source of incentive payments. In June 2011, Metropolitan's Board authorized termination of two incentive agreements with SDCWA under the rate structure integrity provision in such agreements after SDCWA filed its initial complaint challenging Metropolitan's rates. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contained additional allegations but no new causes of action.

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. The complaint contained allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting that Metropolitan's rates, adopted in April 2012, violate Proposition 26. See "–California Ballot Initiatives" for a description of Proposition 26. SDCWA filed a Third Amended Petition for Writ of Mandate and Complaint on January 23, 2013, to add new allegations that Metropolitan's rates adopted in April 2010 did not meet the requirements of Proposition 26. The court granted Metropolitan's motion to strike allegations relating to Proposition 26 on March 29, 2013, expressly ruling that SDCWA may not allege a violation of Proposition 26 in its challenge to the rates adopted in April 2010. This ruling did not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations.

Following trial of both lawsuits in two phases, concluding on January 23, 2014 and April 30, 2015, respectively, the Superior Court of the State of California, County of San Francisco (the "Superior Court"),

issued its Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan appealed the trial court's decision in each case, and SDCWA filed a cross-appeal of the court's ruling on the rate structure integrity claim and an attorneys' fees order.

On June 21, 2017, the California Court of Appeal issued its decision in the appeals and cross-appeal filed by Metropolitan and SDCWA, respectively. The Court of Appeal ruled that Metropolitan may lawfully include its State Water Project transportation costs in the System Access Rate and System Power Rate that are part of the Exchange Agreement's price term, and that Metropolitan may also lawfully include the System Access Rate in its wheeling rate, reversing the trial court decision on this issue. The court held Metropolitan's allocation of the State Water Project transportation costs as its own transportation costs is proper and does not violate the wheeling statutes (Water Code, § 1810, *et seq.*), Proposition 26 (Cal. Const., Article XIIIC, §1, subd.(e)), whether or not that Proposition applies to Metropolitan's rates, California Government Code section 54999.7, the common law, or the terms of the parties' Exchange Agreement.

The Court of Appeal also ruled that the administrative record before it for the rates in calendar years 2011 through 2014 did not support Metropolitan's inclusion of its Water Stewardship Rate as a transportation cost in the Exchange Agreement price or the wheeling rate, under the common law and wheeling statutes. Having made that determination, the Court of Appeal stated it need not evaluate the issue under any other law. The court did not address the allocation of the Water Stewardship Rate in subsequent years based on a different record. The court noted, and in a subsequent modification confirmed, that its holding does not preclude Metropolitan from including the Water Stewardship Rate in Metropolitan's full-service rate.

The Court of Appeal held that because the Water Stewardship Rate was included in the Exchange Agreement price, there was a breach by Metropolitan of the Exchange Agreement in 2011 through 2014. The court remanded the case to the trial court for a redetermination of damages in light of its ruling concerning the Water Stewardship Rate. The Court of Appeal agreed with the trial court that statutory prejudgment interest applies with respect to any damages award, not a lesser contractual interest. The Court of Appeal reversed the trial court by finding that the Exchange Agreement may entitle the prevailing party to attorneys' fees for the second phase of the case concerning breach of contract; but directed the trial court on remand to make a new determination of the prevailing party, if any. The cases were therefore remanded to the trial court for a review of both damages and attorneys' fees, if any.

With respect to other issues considered on appeal, the Court of Appeal upheld the trial court's ruling that Metropolitan improperly excludes SDCWA's payments under the Exchange Agreement in Metropolitan's calculation of SDCWA's preferential rights. The court also ruled that SDCWA had the constitutional right to challenge the rate structure integrity provision in Metropolitan's conservation and local resources incentive agreements and found that the rate structure integrity provision was invalid and unenforceable as an unconstitutional condition on the provision of a public benefit.

On September 27, 2017, the California Supreme Court denied SDCWA's petition for review, declining to consider the Court of Appeal's decision. The Court of Appeal's decision is therefore final.

On July 25, 2018, the Superior Court issued an order regarding the scope of the matters to be reconsidered by the Superior Court on remand pursuant to the Court of Appeal decision. With respect to the Superior Court's re-determination of damages in light of the Court of Appeal's ruling that the administrative record for calendar years 2011 through 2014 did not support Metropolitan's inclusion of its demand management costs in the Exchange Agreement price, the Superior Court ruled that it will award SDCWA \$28,678,190.90 in contract damages for breach of the Exchange Agreement, plus prejudgment interest at 10 percent per annum. The Superior Court determined that Metropolitan was not entitled in the remand proceedings to show what it could have lawfully charged SDCWA for demand management costs and to deduct that from SDCWA's damages.

The Superior Court further ruled that SDCWA was not entitled in the remand proceedings to litigate the issue of “offsetting benefits” (described below) under the wheeling statutes for the parties’ Exchange Agreement. The Superior Court found that such claim was both outside the scope of remand and waived.

The Superior Court also ruled that SDCWA was entitled to judgment on its declaratory relief cause of action declaring the rate structure integrity provision in Metropolitan’s conservation and local resources incentive agreements invalid and unenforceable, and that SDCWA was entitled to further proceedings to litigate the issue of an entitlement to monetary restitution for 2011 through 2014 and the issue of what prospective relief SDCWA may be entitled to in connection with this cause of action.

Finally, the Superior Court confirmed, as the parties agreed, that it would conduct further proceedings for a redetermination of the prevailing party and attorneys’ fees in this matter.

On September 14, 2018, Metropolitan filed a Petition for Writ of Mandate with the California Court of Appeal, requesting the court to require the Superior Court to recalculate contract damages for breach of the Exchange Agreement from years 2011 through 2014, to include a set-off for the additional sums SDCWA would have paid had Metropolitan collected the Water Stewardship Rate through its full service sales as SDCWA argued was correct. On November 1, 2018, the Court of Appeal determined that it would not review the issue at this stage of the cases.

On February 14, 2019, Metropolitan tendered to SDCWA payment of \$44.4 million for the San Francisco Superior Court’s contract damages award for Water Stewardship Rate payments from 2011 through 2014, plus statutory interest through February 15, 2019, with a reservation of appeal rights, in the 2010 and 2012 SDCWA v. Metropolitan actions. This tender was made under compulsion to cease accrual of statutory interest in excess of market rates, but did not affect Metropolitan’s rights to appeal. On March 7, 2019, SDCWA rejected the tendered payment and returned the uncashed check for the tendered payment. In the 2010-2012 Judgment (discussed below), the Superior Court confirmed that Metropolitan’s tender was effective and stopped the accrual of interest in February 2019.

On August 29, 2019, as a result of changes in reorganization of assignments at the San Francisco Superior Court, the 2010 and 2012 cases, as well as the 2016 and 2017 SDCWA v. Metropolitan cases described below, were reassigned to a different department of the court. SDCWA filed a motion for peremptory disqualification of the new judge and on September 6, 2019, the motion was sustained. On September 27, 2019, the 2010, 2012, 2016, and 2017 cases were assigned to Department 304, a different complex department in which the 2014 case (described below) is already pending. All cases are now pending before the Honorable Anne-Christine Massullo.

On November 15, 2019, Metropolitan provided a statutory Offer to Compromise to SDCWA to resolve all pending litigation filed by SDCWA. The offer, which was not confidential, was made under California Code of Civil Procedure Section 998 and was deemed withdrawn if not accepted by December 30, 2019. By letter dated December 19, 2019, SDCWA notified Metropolitan that it had determined not to act upon Metropolitan’s Section 998 Offer to Compromise. Metropolitan’s statutory Offer to Compromise was deemed withdrawn. SDCWA made its own settlement offer, which is public but non-statutory. SDCWA’s settlement offer was made subject to acceptance by Metropolitan no later than the close of business on January 31, 2020. The Metropolitan Board reviewed SDCWA’s proposal at its January 14, 2020 Board meeting and took no action.

The Superior Court had scheduled an evidentiary hearing for June 16 to June 18, 2020 on SDCWA’s requested relief based on its rate structure integrity provision claim. Following action of the SDCWA Board of Directors on February 27, 2020 (discussed below), SDCWA informed Metropolitan and the court that it was no longer seeking this relief. Accordingly, the evidentiary hearing was canceled.

On August 13, 2020, the Superior Court entered a final judgment in the 2010 and 2012 SDCWA v. Metropolitan cases (the “2010-2012 Judgment”). On August 14, 2020, SDCWA served notice of entry of judgment and notice of the court’s peremptory writ of mandate in the cases.

In the 2010-2012 Judgment, the court entered judgment: (1) on the first three causes of action – for writ of mandate, declaratory relief, and invalidation (the rate challenges) – in SDCWA’s favor, because the Court of Appeal found Metropolitan’s inclusion of the Water Stewardship Rate as a component of the transportation rates charged under the Exchange Agreement and wheeling rate was unlawful, and ordered issuance of a writ of mandate as described below; (2) on the fourth cause of action – breach of contract – in favor of SDCWA but only with respect to its challenge to Metropolitan’s inclusion of the Water Stewardship Rate in the Exchange Agreement price for deliveries in 2011-2014, the court awarded SDCWA a total of \$44,373,872.29, comprised of: (A) \$28,678,190.90 in damages; (B) prejudgment interest at the rate of 10 percent per annum through November 18, 2015 in the amount of \$7,484,315.54; and (C) post-judgment interest at the rate of 7 percent per annum from November 19, 2015 until February 15, 2019 (the date of Metropolitan’s tender of \$44,373,872.29 to SDCWA), in the amount of \$8,211,365.85; (3) on the fifth cause of action – declaratory relief regarding the rate structure integrity (RSI) provision – in favor of SDCWA as the RSI provision is invalid and unenforceable; (4) on the sixth cause of action – declaratory relief regarding preferential rights calculation – in favor of SDCWA that Metropolitan’s previous methodology for calculating preferential rights violates § 135 of the Metropolitan Water District Act; (5) on the previously-dismissed cause of action for breach of fiduciary duty – in favor of Metropolitan; and (6) on the previously dismissed cause of action for breach of the covenant of good faith and fair dealing – in favor of Metropolitan.

The peremptory writ of mandate commands Metropolitan to “enact only legal wheeling and transportation rates in the future and, specifically, not to do the things that [the Court of Appeal] held were unlawful,” and incorporates by reference the Court of Appeal decision; and to “exclude the costs of conservation programs and other demand management programs, enacted in [the 2010 and 2012] cases as the Water Stewardship Rate, from Metropolitan’s wheeling rate published in Section 4405 of Metropolitan’s Administrative Code and from the transportation rates charged under the [Exchange Agreement].”

Metropolitan filed a notice of appeal of the 2010-2012 Judgment and the writ on September 11, 2020. Metropolitan filed its opening brief on February 4, 2021. SDCWA filed its responding brief on appeal on May 7, 2021.

The court requested the parties’ briefing as to whether it has jurisdiction to determine the prevailing party, if any, in the 2010 and 2012 cases, after the appeal was filed. The parties filed a joint submission that the court has jurisdiction and the court agreed. On December 16, 2020, the court heard the parties’ cross-motions on the determination of a prevailing party, if any, under the Exchange Agreement’s attorneys’ fees and costs provision. On January 12, 2021, the court heard the parties’ motions to strike or tax each’s memorandum of statutory costs, which involves a determination of prevailing party as to all claims. For both sets of motions, Metropolitan contended that it is the prevailing party entitled to attorneys’ fees and costs, or else there is not a prevailing party in these mixed-result cases.

On January 13, 2021, the court issued an order finding SDCWA is the prevailing party on the contract in the 2010 and 2012 cases, entitled to its attorneys’ fees and costs under the contract. On February 10, 2021, the court issued an order awarding SDCWA statutory costs, on the basis it is the prevailing party. On February 25, 2021, Metropolitan filed a notice of appeal of the January 13 and February 10 orders regarding prevailing party and costs.

On February 11, 2021, Metropolitan received a demand for payment of the final judgment in the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan tendered payment to SDCWA on February 16, 2021 in the amount of \$44,373,872.29, which included the award for damages, prejudgment interest through November 19, 2015, and post-judgment interest through February 15, 2019. The payment included \$31.6

million of amounts withdrawn from the Exchange Agreement Set-Aside Fund (the Water Stewardship Rate payments under the Exchange Agreement from 2011 through 2014, and a portion of the statutory interest), and \$12.8 million withdrawn from reserves (the remainder of the statutory interest).

On March 31, 2021, the parties stipulated to the amount of SDCWA's attorneys' fees that may be awarded under the Exchange Agreement, without waiver of Metropolitan's pending appeals. On April 6, 2021, the court entered the stipulated order awarding SDCWA \$13,397,575.66 in attorneys' fees under the Exchange Agreement.

In May 2014, SDCWA filed a new lawsuit asserting essentially the same rate claims and breach of contract claim in connection with the Board's April 2014 rate adoption. Metropolitan filed its answer on June 30, 2014. On February 9, 2015, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed.

On April 13, 2016, SDCWA filed a new lawsuit that alleged all rates and charges for 2017 and 2018 adopted by Metropolitan's Board on April 12, 2016 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserted misallocation of costs as alleged in the previous cases listed above and additional claims of over-collection and misallocation of costs and procedural violations. Following a stipulated order issued by the court on November 10, 2016, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases' appeals. The amended petition/complaint added allegations of the same Exchange Agreement breach as in the previous cases listed above and breach of a provision that requires Metropolitan to set aside disputed amounts, relating to the manner in which Metropolitan has set aside the amounts; requested a judicial declaration that, if a judgment is owed to SDCWA under the Exchange Agreement, SDCWA will not be required to pay any portion of that judgment; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees.

On February 27, 2020, the SDCWA Board of Directors authorized its attorneys to dismiss, without prejudice, claims related to payments of the Water Stewardship Rate on supply purchases only and the unquantified claims in the stayed cases relating to cost-of-service grounds and the rate model.

On August 27, 2020, the court granted SDCWA's motion to lift the stays in the 2014 and 2016 SDCWA v. Metropolitan cases and to file a further amended petition/complaint. On August 28, 2020, SDCWA filed the amended petitions/complaints in the 2014 and 2016 cases. The amended petitions/complaints added, removed, and retained certain claims. Retained claims include SDCWA's challenge to Metropolitan's Water Stewardship Rate for calendar years 2015 through 2018 based on its allocation to transportation, with a request for the court to invalidate the transportation rates and the wheeling rate and award damages for breach of the parties' Exchange Agreement as a result. Added claims include a challenge to the wheeling rate and alleged breach of the Exchange Agreement for failure to provide offsetting benefits (only the 2018 case, discussed below, had included an offsetting benefits claim). In its offsetting benefits claim under the Exchange Agreement, SDCWA seeks to reduce the contract price.

On September 28, 2020, Metropolitan filed demurrers to, or in the alternative motions to strike, portions of the amended petitions/complaints in the 2014 and 2016 cases, which the court heard on February 10, 2021. The motions sought to remove offsetting benefits claims in both cases as to alleged breach of contract and Metropolitan's wheeling rate, and the declaratory relief claim in the 2016 case as to how Metropolitan may satisfy a judgment. On February 16, 2021, the court denied the demurrers and motions to strike, allowing SDCWA to retain the contested allegations in its petitions/complaints.

On March 22, 2021, Metropolitan filed answers to the amended petitions/complaints in the 2014 and 2016 cases, along with cross-complaints asserting causes of action for declaratory relief with respect to,

among other things, that the inclusion of the Water Stewardship Rate in transportation rates is lawful, that the transportation rates as charged under the Exchange Agreement are lawful as to offsetting benefits, and the inapplicability of Proposition 26 to Metropolitan's rates; judicial estoppel with respect to SDCWA's past statements regarding the Exchange Agreement; and for reformation of the Exchange Agreement price in the event the court were to find that the Exchange Agreement is subject to, based on, or incorporates the "offsetting benefits" provisions of the wheeling statutes. On April 23, 2021, SDCWA filed answers to the cross-complaints. SDCWA's answers to Metropolitan's cross-complaints assert affirmative defenses.

On June 9, 2017, SDCWA filed a new Petition for Writ of Mandate and Complaint challenging the Readiness-to-Serve Charge and Capacity Charge for 2018 adopted by Metropolitan's Board on April 11, 2017. These two charges are set annually, and SDCWA's 2016 lawsuit included a challenge to these two charges for 2017. The new lawsuit similarly alleged the 2018 Readiness-to-Serve Charge and Capacity Charge violated the California Constitution, statutes, and common law. The petition/complaint asserts misallocation of costs. Metropolitan was served with the petition/complaint on June 20, 2017. On July 18, 2017, SDCWA filed a first amended petition/complaint to add Metropolitan's Board action of July 11, 2017 to make minor corrections to the Readiness-to-Serve Charge. On July 31, 2018, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed. On July 23, 2020, the court entered SDCWA's requested dismissal of the 2017 case. The dismissal is without prejudice, which means SDCWA would not be precluded from re-initiating the case in the future.

On June 8, 2018, SDCWA filed a new lawsuit that alleges all rates and charges for 2019 and 2020 adopted by Metropolitan's Board on April 10, 2018 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts the Water Stewardship Rate is unlawful per se and its collection in transportation charges is also unlawful; failure to provide wheelers a reasonable credit for "offsetting benefits" pursuant to Water Code Section 1810, *et seq.*, which SDCWA contends (and Metropolitan disputes) applies to the parties' Exchange Agreement; over-collection and misallocation of costs, including misallocation of Metropolitan's California WaterFix costs as its transportation costs; and specified procedural violations. SDCWA states in the Petition and Complaint that it intends to amend its complaint to allege additional claims against Metropolitan, including but not limited to a claim for breach of contract. Following a stipulated order issued by the San Francisco Superior Court on January 10, 2019, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases. The amended petition/complaint adds a cause of action for breach of the Exchange Agreement alleging Metropolitan charged an unlawful price that includes the Water Stewardship Rate (despite suspension of this charge), failing to provide credit for offsetting benefits, charging transportation rates that are not based on costs of service, including California WaterFix costs, and not following procedural requirements; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees.

On July 28, 2020, the parties filed a stipulation and application to designate the case complex and related to the 2010-2017 cases. On November 13, 2020, the court ordered the case complex and assigned to Judge Massullo's court.

On April 20, 2021, based on the parties' stipulation, the court ordered the stay in the 2018 case lifted and granted SDCWA leave to file an amended petition/complaint. On April 21, 2021, SDCWA filed its amended petition/complaint. SDCWA removed claims in this amended petition/complaint comparably to those it removed in the 2014 and 2016 cases. The amended petition/complaint retains claims concerning the Water Stewardship Rate's inclusion in the wheeling rate and the Exchange Agreement price (notwithstanding that Metropolitan ceased charging the Water Stewardship Rate under the Exchange Agreement in January 2018), the inclusion of WaterFix costs in the wheeling rate and the Exchange Agreement price, and offsetting benefits with respect to the wheeling rate and the Exchange Agreement price.

In a Case Management Conference on April 22, 2021, the court stated the 2014, 2016, and 2018 cases will be consolidated. The court set a trial date in the three cases for May 16 through 27, 2022.

Due to SDCWA's litigation challenging Metropolitan's rates, and pursuant to the Exchange Agreement between Metropolitan and SDCWA, as of March 31, 2021, Metropolitan held \$26.45 million in the Exchange Agreement Set-Aside Fund. See "—Financial Reserve Policy." This amount includes the disputed Water Stewardship Rate payments for calendar years 2015 through 2017, and interest earned by Metropolitan thereon. The amount held does not include statutory interest, attorneys' fees, costs, or any other amount the court may award.

Metropolitan is unable to assess at this time the likelihood of success of the pending cases, any possible appeals, or any future claims.

Other Revenue Sources

Hydroelectric Power Recovery Revenues. Metropolitan has constructed 16 small hydroelectric plants on its distribution system. The combined generating capacity of these plants is approximately 130 megawatts. The plants are located in Los Angeles, Orange, Riverside, and San Diego Counties at existing pressure control structures and other locations. The total capital cost of the 16 facilities is approximately \$176.1 million. Since 2000, annual energy generation sales revenues have ranged between \$7.3 million and nearly \$29.6 million. Including the sale of excess energy generation from Hoover and Parker dams, the total energy sales revenues were \$18.3 million in fiscal year 2018-19 and \$15.9 million in fiscal year 2019-20.

Investment Income. In fiscal years 2017-18, 2018-19 and 2019-20, Metropolitan's earnings on investments, including adjustments for gains and losses and premiums and discounts, including construction account and trust fund earnings, excluding gains and losses on swap terminations, on a cash basis (unaudited) were \$15.5 million, \$31.3 million, and \$18.1 million, respectively.

Investment of Moneys in Funds and Accounts

The Board has delegated to the Treasurer the authority to invest funds. All moneys in any of the funds and accounts established pursuant to Metropolitan's water revenue or general obligation bond resolutions are managed by the Treasurer in accordance with Metropolitan's Statement of Investment Policy. All Metropolitan funds available for investment are currently invested in United States Treasury and agency securities, supranationals, commercial paper, negotiable certificates of deposit, banker's acceptances, corporate notes, municipal bonds, government-sponsored enterprise, money market funds, California Asset Management Program ("CAMP") and the California Local Agency Investment Fund ("LAIF"). CAMP is a program created through a joint powers agency as a pooled short-term portfolio and cash management vehicle for California public agencies. CAMP is a permitted investment for all local agencies under California Government Code Section 53601(p). LAIF is a voluntary program created by statute as an investment alternative for California's local governments and special districts. LAIF permits such local agencies to participate in an investment portfolio, which invests billions of dollars, managed by the State Treasurer's Office.

The Statement of Investment Policy provides that in managing Metropolitan's investments, the primary objective shall be to safeguard the principal of the invested funds. The secondary objective shall be to meet all liquidity requirements and the third objective shall be to achieve a return on the invested funds. Although the Statement of Investment Policy permits investments in some government-sponsored enterprise, the portfolio does not include any of the special investment vehicles related to sub-prime mortgages. Metropolitan's current investments comply with the Statement of Investment Policy.

As of March 31, 2021, the total market value (cash-basis) of all Metropolitan invested funds was \$1.3 billion, including bond reserves of \$1.7 million. The market value of Metropolitan's investment portfolio is subject to market fluctuation and volatility and general economic conditions. Over the three years ended March 31, 2021 the market value of the month-end balance of Metropolitan's investment portfolio (excluding bond reserve funds) averaged approximately \$1.0 billion. The minimum month-end balance of Metropolitan's investment portfolio (excluding bond reserve funds) during such period was approximately \$831.9 million on July 31, 2019. See Note 3 to Metropolitan's audited financial statements in Appendix B for additional information on the investment portfolio.

Metropolitan's administrative code requires that (1) the Treasurer provide an annual Statement of Investment Policy for approval by Metropolitan's Board, (2) the Treasurer provide a monthly investment report to the Board and the General Manager showing by fund the description, maturity date, yield, par, cost and current market value of each security, and (3) the General Counsel review as to eligibility the securities invested in by the Treasurer for that month and report his or her determinations to the Board. The Board approved the Statement of Investment Policy for fiscal year 2020-21 on June 9, 2020.

Subject to the provisions of Metropolitan's water revenue or general obligation bond resolutions, obligations purchased by the investment of bond proceeds in the various funds and accounts established pursuant to a bond resolution are deemed at all times to be a part of such funds and accounts and any income realized from investment of amounts on deposit in any fund or account therein will be credited to such fund or account. The Treasurer is required to sell or present for redemption any investments whenever it may be necessary to do so in order to provide moneys to meet required payments or transfers from such funds and accounts. For the purpose of determining at any given time the balance in any such funds, any such investments constituting a part of such funds and accounts will be valued at the then estimated or appraised market value of such investments.

All investments, including those authorized by law from time to time for investments by public agencies, contain certain risks. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under Metropolitan's water revenue or general obligation revenue bond resolutions, or other amounts held by Metropolitan, could have a material adverse effect on Metropolitan's finances. These risks may be mitigated, but are not eliminated, by limitations imposed on the portfolio management process by Metropolitan's Statement of Investment Policy.

The Statement of Investment Policy requires that investments have a minimum credit rating of "A-1/P-1/F1" for short-term securities and "A" for longer-term securities, without regard to modifiers, at the time of purchase. If a security is downgraded below the minimum rating criteria specified in the Statement of Investment Policy, the Treasurer shall determine a course of action to be taken on a case-by-case basis considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security. The Treasurer is required to note in the Treasurer's monthly report any securities which have been downgraded below Policy requirements and the recommended course of action.

The Statement of Investment Policy also limits the amount of securities that can be purchased by category, as well as by issuer, and prohibits investments that can result in zero interest income. Metropolitan's securities are settled on a delivery versus payment basis and are held by an independent third-party custodian. See Metropolitan's financial statements included in APPENDIX B—"THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITORS' REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019 AND BASIC FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2021 AND 2020 (UNAUDITED)" for a description of Metropolitan's investments at June 30, 2020 and March 31, 2021.

Since July 2019, Metropolitan has retained one outside investment firm to manage the portion of Metropolitan's portfolio not needed to provide liquidity for expenditures over the next six months. As of March 31, 2021, this manager was managing approximately \$195.6 million in investments on behalf of Metropolitan. Since December 2018, Metropolitan has retained an outside investment firm to manage a portion of the liquidity portfolio and certain trust funds. As of March 31, 2021, this firm managed approximately \$1.1 billion. The outside managers are required to adhere to Metropolitan's Statement of Investment Policy.

Metropolitan's Statement of Investment Policy may be changed at any time by the Board (subject to State law provisions relating to authorized investments). There can be no assurance that the State law and/or the Statement of Investment Policy will not be amended in the future to allow for investments that are currently not permitted under State law or the Statement of Investment Policy, or that the objectives of Metropolitan with respect to investments or its investment holdings at any point in time will not change.

METROPOLITAN EXPENSES

General

The following table sets forth a summary of Metropolitan's expenses, by major function, for the five years ended June 30, 2020, on a modified accrual basis. All information is unaudited. Expenses of Metropolitan for the fiscal years ended June 30, 2020 and June 30, 2019, on an accrual basis, are shown in Metropolitan's audited financial statements included in Appendix B.

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

	2016	2017	2018	2019	2020
Operation and Maintenance Costs ⁽¹⁾	\$ 799	\$ 559	\$ 568	\$ 569	\$ 641
Total State Water Project ⁽²⁾	512	506	527	482	519
Total Debt Service	332	330	360	347	285
Construction Expenses from Revenues ⁽³⁾	273	132	98	128	39
Other ⁽⁴⁾	6	4	5	6	6
Total Expenses (net of reimbursements)	\$1,922	\$1,531	\$1,558	\$1,532	\$1,490

Source: Metropolitan.

⁽¹⁾ Includes operation and maintenance, debt administration, conservation and local resource programs, CRA power, and water supply expenses. Fiscal years 2015-16, 2016-17, and 2017-18 include \$222 million, \$33 million, and \$1 million, respectively, of conservation and supply program expenses funded from transfers from the Water Management Fund.

⁽²⁾ Includes both operating and capital expense portions.

⁽³⁾ At the discretion of the Board, in any given year, Metropolitan may increase or decrease funding available for construction disbursements to be paid from revenues. Includes \$160 million for acquiring properties in Riverside and Imperial Counties, funded by \$160 million from the Replacement and Refurbishment Fund Reserves in fiscal year 2015-16. Does not include expenditures of bond proceeds.

⁽⁴⁾ Includes operating equipment.

Revenue Bond Indebtedness and Other Obligations

As of May 1, 2021, Metropolitan had total outstanding indebtedness secured by a lien on Net Operating Revenues of \$3.99 billion. This indebtedness was comprised of \$2.58 billion of Senior Revenue Bonds issued under the Senior Debt Resolutions (each as defined below), which includes \$2.25 billion of fixed rate Senior Revenue Bonds, and \$331.9 million of variable rate Senior Revenue Bonds; \$1.36 billion of Subordinate Revenue Bonds issued under the Subordinate Debt Resolutions (each as defined below), which includes \$915.87 million of fixed rate Subordinate Revenue Bonds, and \$446.3 million of variable rate Subordinate Revenue Bonds; and \$46.8 million of subordinate lien short-term certificates, which bear a

variable rate, and are on parity with the Subordinate Revenue Bonds. In addition, Metropolitan has \$438.7 million of fixed-payor interest rate swaps which provides a fixed interest rate hedge to an equivalent amount of variable rate debt. Metropolitan's revenue bonds and other revenue obligations are more fully described below.

REVENUE BOND INDEBTEDNESS AND OTHER OBLIGATIONS

	Variable Rate	Fixed Rate	Total
Senior Lien Revenue Bonds	\$ 331,875,000	\$2,253,110,000	\$2,584,985,000
Subordinate Lien Revenue Bonds	446,255,000	915,865,000	1,362,120,000
Subordinate Lien Short-Term Certificates	46,800,000	--	46,800,000
Total	\$ 824,930,000	\$3,168,975,000	\$3,993,905,000
Fixed-Payor Interest Rate Swaps	(438,665,000)	438,665,000	--
Net Amount (after giving effect to Swaps)	\$ 386,265,000	\$3,607,640,000	\$3,993,905,000

Source: Metropolitan.

Limitations on Additional Revenue Bonds

Resolution 8329, adopted by Metropolitan's Board on July 9, 1991, as amended and supplemented (the "Master Senior Resolution," and collectively with all such supplemental resolutions, the "Senior Debt Resolutions"), provides for the issuance of Metropolitan's senior lien water revenue bonds. The Senior Debt Resolutions establish limitations on the issuance of additional obligations payable from Net Operating Revenues. Under the Senior Debt Resolutions, no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues may be issued having any priority in payment of principal, redemption premium, if any, or interest over any water revenue bonds authorized by the Senior Debt Resolutions ("Senior Revenue Bonds") or other obligations of Metropolitan having a lien and charge upon, or being payable from, the Net Operating Revenues on parity with such Senior Revenue Bonds ("Senior Parity Obligations"). No additional Senior Revenue Bonds or Senior Parity Obligations may be issued or incurred unless the conditions of the Senior Debt Resolutions have been satisfied.

Resolution 9199, adopted by Metropolitan's Board on March 8, 2016, as amended and supplemented (the "Master Subordinate Resolution," and collectively with all such supplemental resolutions, the "Subordinate Debt Resolutions," and together with the Senior Debt Resolutions, the "Revenue Bond Resolutions"), provides for the issuance of Metropolitan's subordinate lien water revenue bonds and other obligations secured by a pledge of Net Operating Revenues that is subordinate to the pledge securing Senior Revenue Bonds and Senior Parity Obligations. The Subordinate Debt Resolutions establish limitations on the issuance of additional obligations payable from Net Operating Revenues. Under the Subordinate Debt Resolutions, with the exception of Senior Revenue Bonds and Senior Parity Obligations, no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues may be issued having any priority in payment of principal, redemption premium, if any, or interest over any subordinate water revenue bonds authorized by the Subordinate Debt Resolutions ("Subordinate Revenue Bonds" and, together with Senior Revenue Bonds, "Revenue Bonds") or other obligations of Metropolitan having a lien and charge upon, or being payable from, the Net Operating Revenues on parity with the Subordinate Revenue Bonds ("Subordinate Parity Obligations"). No additional Subordinate Revenue Bonds or Subordinate Parity Obligations may be issued or incurred unless the conditions of the Subordinate Debt Resolutions have been satisfied.

The laws governing Metropolitan's ability to issue water revenue bonds currently provide two additional limitations on indebtedness that may be incurred by Metropolitan. The Act provides for a limit on general obligation bonds, water revenue bonds and other evidences of indebtedness of 15 percent of the assessed value of all taxable property within Metropolitan's service area. As of May 1, 2021, outstanding general obligation bonds, water revenue bonds and other evidences of indebtedness in the amount of \$4.02

billion represented approximately 0.12 percent of the fiscal year 2020-21 taxable assessed valuation of \$3,263.4 billion. The second limitation under the Act specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of such bonds, equals at least 100 percent of the aggregate amount of revenue bonds outstanding following the issuance of such bonds. The net assets of Metropolitan at June 30, 2020 were \$6.94 billion. The aggregate amount of revenue bonds outstanding as of May 1, 2021 was \$3.95 billion. The limitation does not apply to other forms of financing available to Metropolitan. Audited financial statements including the net assets of Metropolitan as of June 30, 2020 and June 30, 2019 are shown in Metropolitan's audited financial statements included in APPENDIX B—"THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITORS' REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019 AND BASIC FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2021 AND 2020 (UNAUDITED)."

Metropolitan provides no assurance that the Act's limitations on indebtedness will not be revised or removed by future legislation. Limitations under the Revenue Bond Resolutions respecting the issuance of additional obligations payable from Net Operating Revenues on parity with the Senior Revenue Bonds and Subordinate Revenue Bonds of Metropolitan will remain in effect so long as any Senior Revenue Bonds and Subordinate Revenue Bonds authorized pursuant to the applicable Revenue Bond Resolutions are outstanding, provided however, that the Revenue Bond Resolutions are subject to amendment and supplement in accordance with their terms.

Variable Rate Exposure Policy

As of May 1, 2021, Metropolitan had outstanding \$331.9 million of variable rate obligations issued as Senior Revenue Bonds under the Senior Debt Resolutions (described under "—Outstanding Senior Revenue Bonds and Senior Parity Obligations –Variable Rate and Swap Obligations" below). In addition, as of May 1, 2021, \$493.1 million of Metropolitan's \$1.41 billion of outstanding Subordinate Revenue Bonds issued under the Subordinate Debt Resolutions and other Subordinate Parity Obligations were variable rate obligations (described under "—Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations" below).

As of May 1, 2021, of Metropolitan's \$824.9 million of variable rate obligations, \$438.7 million of such variable rate demand obligations are treated by Metropolitan as fixed rate debt, by virtue of interest rate swap agreements (described under "—Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations – Interest Rate Swap Transactions" below), for the purpose of calculating debt service requirements. The remaining \$386.3 million of variable rate obligations represent approximately 9.7 percent of total outstanding water revenue secured indebtedness (including Senior Revenue Bonds and Senior Parity Obligations and Subordinate Revenue Bonds and Subordinate Parity Obligations), as of May 1, 2021.

Metropolitan's variable rate exposure policy requires that variable rate debt be managed to limit net interest cost increases within a fiscal year as a result of interest rate changes to no more than \$5 million. In addition, the maximum amount of variable interest rate exposure (excluding variable rate bonds associated with interest rate swap agreements) is limited to 40 percent of total outstanding water revenue bond debt. Variable rate debt capacity will be reevaluated as interest rates change and managed within these parameters.

The periodic payments due to Metropolitan from counterparties under its outstanding interest rate swap agreements and the interest payments to be payable by Metropolitan under certain of its outstanding variable rate obligations (including some of Metropolitan's Subordinate Revenue Bonds and certain notes issued pursuant to its short-term revolving credit agreement and subordinate note purchase agreements as hereinafter described) are calculated by reference to the London interbank offering rate ("LIBOR"). On July 27, 2017, the Financial Conduct Authority (the "FCA"), the U.K. regulatory body currently responsible

for the regulation and supervision of LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021 (the “FCA Announcement”). Following a consultation announced in November 2020 by the Intercontinental Exchange Benchmark Administration (“IBA”), the administrator of LIBOR authorized and regulated by the FCA, with the support of the Federal Reserve Board and the FCA, the IBA made a formal announcement on March 5, 2021 that the date for the cessation of the publication of various tenors of USD LIBOR (or date on which any published USD LIBOR rate for such tenors would cease to be representative) would be: (1) December 31, 2021, for the one-week and two-month USD LIBOR, and (2) June 30, 2023, for all other tenors of USD LIBOR, including the one-month LIBOR and three-month LIBOR, the most widely used tenors of USD LIBOR and which are used to determine the periodic payments due to Metropolitan from swap counterparties and the interest payments to be payable by Metropolitan under certain of its outstanding variable rate obligations. Metropolitan staff is monitoring alternate benchmark rates. Metropolitan is unable to predict the outcome of how the prospective phasing out of LIBOR as a reference rate and transition to an alternate benchmark rate will ultimately be implemented, but increased volatility in the reported LIBOR rates may occur and the level of Metropolitan’s LIBOR-based swap and interest payments may be affected by the transition to an alternate benchmark rate when it occurs.

Outstanding Senior Revenue Bonds and Senior Parity Obligations

Senior Revenue Bonds

The water revenue bonds issued under the Senior Debt Resolutions outstanding as of May 1, 2021, are set forth below:

Name of Issue	Principal Outstanding
Water Revenue Refunding Bonds, 1993 Series A	\$ 2,040,000
Water Revenue Bonds, 2000 Authorization, Series B-3 ⁽¹⁾	78,900,000
Water Revenue Refunding Bonds, 2011 Series C ⁽²⁾	118,700,000
Water Revenue Refunding Bonds, 2012 Series A	181,180,000
Water Revenue Refunding Bonds, 2012 Series C	5,635,000
Water Revenue Refunding Bonds, 2012 Series F	37,735,000
Water Revenue Refunding Bonds, 2012 Series G	89,820,000
Water Revenue Refunding Bonds, 2014 Series A	4,870,000
Water Revenue Refunding Bonds, 2014 Series C-3 ⁽³⁾	2,810,000
Water Revenue Refunding Bonds, 2014 Series E	86,060,000
Water Revenue Bonds, 2015 Authorization, Series A	201,535,000
Water Revenue Refunding Bonds, 2016 Series A	239,455,000
Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1 and B-2 ⁽¹⁾	82,905,000
Water Revenue Bonds, 2017, Authorization, Series A ⁽¹⁾	80,000,000
Special Variable Water Revenue Refunding Bonds, 2018 Series A-1 and A-2 ⁽¹⁾	90,070,000
Water Revenue Refunding Bonds, 2018 Series B	129,125,000
Water Revenue Refunding Bonds, 2019 Series A	218,090,000
Water Revenue Bonds, 2020 Series A	207,355,000
Special Variable Rate Water Revenue Refunding Bonds, 2020 Series B ⁽⁴⁾	271,815,000
Water Revenue Refunding Bonds, 2020 Series C	267,995,000
Water Revenue Bonds, 2021 Series A	188,890,000
Total	\$2,584,985,000

Source: Metropolitan.

⁽¹⁾ Outstanding variable rate obligation.

⁽²⁾ To be refunded in part by Metropolitan’s Water Revenue Refunding Bonds, 2021 Series B.

⁽³⁾ To be refunded in full by Metropolitan’s Water Revenue Refunding Bonds, 2021 Series B.

⁽⁴⁾ Currently in a long mode at a fixed interest rate to April 2, 2024.

Variable Rate and Swap Obligations

As of May 1, 2021, Metropolitan had outstanding \$331.9 million of senior lien variable rate obligations. The outstanding variable rate obligations consist of Senior Revenue Bonds issued under the

Senior Debt Resolutions (described under this caption “–Variable Rate and Swap Obligations”) as variable rate demand obligations in a daily mode supported by standby bond purchase agreements between Metropolitan and various liquidity providers (the “Liquidity Supported Bonds”). Metropolitan also has an outstanding Short-Term Revolving Credit Facility under which it may incur variable rate Senior Parity Obligations (described under “–Senior Parity Obligations – Short-Term Revolving Credit Facility” below).

Liquidity Supported Bonds. The interest rates for Metropolitan’s variable rate demand obligations issued under the Senior Debt Resolutions, totaling \$331.9 million as of May 1, 2021, are currently reset on a daily basis. While bearing interest at a daily rate, such variable rate demand obligations are subject to optional tender on any business day with same day notice by the owners thereof and mandatory tender upon specified events. Such variable rate demand obligations are supported by standby bond purchase agreements between Metropolitan and liquidity providers that provide for purchase of variable rate bonds by the applicable liquidity provider upon tender of such variable rate bonds and a failed remarketing. Metropolitan has secured its obligation to repay principal and interest advanced under the standby bond purchase agreements as Senior Parity Obligations. A decline in the creditworthiness of a liquidity provider will likely result in an increase in the interest rate of the applicable variable rate bonds, as well as an increase in the risk of a failed remarketing of such tendered variable rate bonds. Variable rate bonds purchased by a liquidity provider (“bank bonds”) would initially bear interest at a per annum interest rate equal to, depending on the liquidity facility, either: (a) the highest of (i) the Prime Rate, (ii) the Federal Funds Rate plus one-half of a percent, or (iii) seven and one-half percent (with the spread or rate increasing in the case of each of (i), (ii) and (iii) of this clause (a) by one percent after 60 days); or (b) the highest of (i) the Prime Rate plus one percent, (ii) Federal Funds Rate plus two percent, and (iii) seven percent (with the spread or rate increasing in the case of each of (i), (ii) and (iii) of this clause (b) by one percent after 90 days). To the extent such bank bonds have not been remarketed or otherwise retired as of the earlier of the 60th day following the date such bonds were purchased by the liquidity provider or the stated expiration date of the related liquidity facility, Metropolitan’s obligation to reimburse the liquidity provider may convert the term of the variable rate bonds purchased by the liquidity provider into a term loan payable under the terms of the current liquidity facilities in semi-annual installments over a period ending on either the third anniversary or fifth anniversary, depending on the applicable liquidity facility, of the date on which the variable rate bonds were purchased by the liquidity provider. In addition, upon an event of default under any such liquidity facility, including a failure by Metropolitan to perform or observe its covenants under the applicable standby bond purchase agreement, a default in other specified indebtedness of Metropolitan, or other specified events of default (including a reduction in the credit rating assigned to Senior Revenue Bonds issued under the Senior Debt Resolutions by any of Fitch, S&P or Moody’s below “A–” or “A3”), the liquidity provider could require all bank bonds to be subject to immediate mandatory redemption by Metropolitan.

The following table lists the current liquidity providers, the current expiration date of each facility, and the principal amount of outstanding variable rate demand obligations covered under each facility as of May 1, 2021.

Liquidity Facilities and Expiration Dates

Liquidity Provider	Bond Issue	Principal Outstanding	Facility Expiration
TD Bank, N.A. ⁽¹⁾	2018 Series A-1 and Series A-2	\$ 90,070,000	June 2024 ⁽¹⁾
TD Bank, N.A. ⁽¹⁾	2016 Series B-1 and Series B-2	\$ 82,905,000	June 2024 ⁽¹⁾
PNC Bank, N.A.	2017 Authorization Series A	\$ 80,000,000	March 2023
PNC Bank, N.A.	2000 Authorization Series B-3	<u>\$ 78,900,000</u>	March 2023
Total		\$331,875,000	

Source: Metropolitan.

⁽¹⁾ Liquidity provider and facility effective as of June 4, 2021.

Interest Rate Swap Transactions. By resolution adopted on September 11, 2001, Metropolitan's Board authorized the execution of interest rate swap transactions and related agreements in accordance with a master swap policy, which was subsequently amended by resolutions adopted on July 14, 2009 and May 11, 2010. Metropolitan may execute interest rate swaps if the transaction can be expected to reduce exposure to changes in interest rates on a particular financial transaction or in the management of interest rate risk derived from Metropolitan's overall asset/liability balance, result in a lower net cost of borrowing or achieve a higher net rate of return on investments made in connection with or incidental to the issuance, incurring or carrying of Metropolitan's obligations or investments, or manage variable interest rate exposure consistent with prudent debt practices and Board-approved guidelines. The Chief Financial Officer reports to the Finance and Insurance Committee of Metropolitan's Board each quarter on outstanding swap transactions, including notional amounts outstanding, counterparty exposures and termination values based on then-existing market conditions.

Metropolitan currently has one type of interest rate swap, referred to in the table below as "Fixed Payor Swaps." Under this type of swap, Metropolitan receives payments that are calculated by reference to a floating interest rate and makes payments that are calculated by reference to a fixed interest rate.

Metropolitan's obligations to make regularly scheduled net payments under the terms of the interest rate swap agreements are payable on a parity with the Senior Parity Obligations. Termination payments under the 2002A and 2002B interest rate swap agreements would be payable on a parity with the Senior Parity Obligations. Termination payments under all other interest rate swap agreements would be on parity with the Subordinate Parity Obligations.

The following swap transactions were outstanding as of May 1, 2021:

FIXED PAYOR SWAPS:

Designation	Notional Amount Outstanding	Swap Counterparty	Fixed Payor Rate	Metropolitan Receives	Maturity Date
2002 A	\$ 48,282,000	Morgan Stanley Capital Services, Inc.	3.300%	57.74% of one-month LIBOR	7/1/2025
2002 B	18,063,000	JPMorgan Chase Bank	3.300	57.74% of one-month LIBOR	7/1/2025
2003	150,047,500	Wells Fargo Bank	3.257	61.20% of one-month LIBOR	7/1/2030
2003	150,047,500	JPMorgan Chase Bank	3.257	61.20% of one-month LIBOR	7/1/2030
2004 C	7,760,500	Morgan Stanley Capital Services, Inc.	2.980	61.55% of one-month LIBOR	10/1/2029
2004 C	6,349,500	Citigroup Financial Products, Inc.	2.980	61.55% of one-month LIBOR	10/1/2029
2005	29,057,500	JPMorgan Chase Bank	3.360	70% of 3-month LIBOR	7/1/2030
2005	<u>29,057,500</u>	Citigroup Financial Products, Inc.	3.360	70% of 3-month LIBOR	7/1/2030
Total	\$438,665,000				

Source: Metropolitan.

These interest rate swap agreements entail risk to Metropolitan. The counterparty may fail or be unable to perform, interest rates may vary from assumptions, Metropolitan may be required to post collateral in favor of its counterparties and Metropolitan may be required to make significant payments in the event of

an early termination of an interest rate swap. Metropolitan believes that if such an event were to occur, it would not have a material adverse impact on its financial position. Metropolitan seeks to manage counterparty risk by diversifying its swap counterparties, limiting exposure to any one counterparty, requiring collateralization or other credit enhancement to secure swap payment obligations, and by requiring minimum credit rating levels. Initially, swap counterparties must be rated at least “Aa3” or “AA-”, or equivalent by any two of the nationally recognized credit rating agencies; or use a “AAA” subsidiary as rated by at least one nationally recognized credit rating agency. Should the credit rating of an existing swap counterparty drop below the required levels, Metropolitan may enter into additional swaps if those swaps are “offsetting” and risk-reducing swaps. Each counterparty is initially required to have minimum capitalization of at least \$150 million. See Note 5(e) in Metropolitan’s audited financial statements in Appendix B.

Early termination of an interest rate swap agreement could occur due to a default by either party or the occurrence of a termination event (including defaults under other specified swaps and indebtedness, certain acts of insolvency, if a party may not legally perform its swap obligations, or, with respect to Metropolitan, if its credit rating is reduced below “BBB-” by Moody’s or “Baa3” by S&P (under most of the interest rate swap agreements) or below “BBB” by Moody’s or “Baa2” by S&P (under one of the interest rate swap agreements)). As of March 31, 2021, Metropolitan would have been required to pay to some of its counterparties termination payments if its swaps were terminated on that date. Metropolitan’s net exposure to its counterparties for all such termination payments on that date was approximately \$52.2 million. Metropolitan does not presently anticipate early termination of any of its interest rate swap agreements due to default by either party or the occurrence of a termination event. However, Metropolitan has previously exercised, and may in the future exercise, from time to time, optional early termination provisions to terminate all or a portion of certain interest rate swap agreements.

Metropolitan is required to post collateral in favor of a counterparty to the extent that Metropolitan’s total exposure for termination payments to that counterparty exceeds the threshold specified in the applicable swap agreement. Conversely, the counterparties are required to release collateral to Metropolitan or post collateral for the benefit of Metropolitan as market conditions become favorable to Metropolitan. As of March 31, 2021, Metropolitan had no collateral posted with any counterparty. The highest, month-end, amount of collateral posted was \$36.8 million, on June 30, 2012, which was based on an outstanding swap notional amount of \$1.4 billion at that time. The amount of required collateral varies from time to time due primarily to interest rate movements and can change significantly over a short period of time. See “METROPOLITAN REVENUES–Financial Reserve Policy” in this Appendix A. In the future, Metropolitan may be required to post additional collateral, or may be entitled to a reduction or return of the required collateral amount. Collateral deposited by Metropolitan is held by the counterparties; a bankruptcy of any counterparty holding collateral posted by Metropolitan could adversely affect the return of the collateral to Metropolitan. Moreover, posting collateral limits Metropolitan’s liquidity. If collateral requirements increase significantly, Metropolitan’s liquidity may be materially adversely affected. See “METROPOLITAN REVENUES–Financial Reserve Policy” in this Appendix A.

Direct Purchase Long Mode Bonds

In April 2020, Metropolitan entered into a Bond Purchase Agreement, dated as of April 1, 2020 (the “2020 Direct Purchase Agreement”) with Wells Fargo Municipal Capital Strategies, LLC (“WFMCS”), for the purchase by WFMCS and sale by Metropolitan of Metropolitan’s \$271.8 million Special Variable Rate Water Revenue Refunding Bonds 2020 Series B (the “2020B Senior Revenue Bonds”). The 2020B Senior Revenue Bonds were issued for the purpose of refunding all of Metropolitan’s then outstanding variable rate Senior Revenue Bonds that were designated as self-liquidity bonds as part of Metropolitan’s self-liquidity program (“Self-Liquidity Bonds”).

The 2020B Senior Revenue Bonds were issued under the Senior Debt Resolutions and are further described in a related paying agent agreement, dated as of April 1, 2020, as amended by the Paying Agent Agreement Amendment No. 1, dated as of April 1, 2021 (together, the “2020B Paying Agent Agreement”),

by and between Metropolitan and Wells Fargo Bank, N.A., as paying agent. Pursuant to the 2020B Paying Agent Agreement, the 2020B Senior Revenue Bonds may bear interest from time to time in any one of several interest rate modes at the election of Metropolitan. The 2020B Senior Revenue Bonds currently bear interest in a Long Mode under the 2020B Paying Agent Agreement at a Long Rate equal to 0.46 percent per annum for the Long Period ending on April 2, 2024. If not earlier prepaid or redeemed pursuant to the terms of the 2020 Direct Purchase Agreement and the 2020B Paying Agent Agreement, the 2020B Senior Revenue Bonds are subject to mandatory tender for purchase on April 2, 2024 (the “Mandatory Tender Date”), the last day of the new Long Period. The 2020B Senior Revenue Bonds were initially designated as Self-Liquidity Bonds pursuant to the 2020B Paying Agent Agreement and no standby bond purchase agreement or other liquidity facility is in effect for the purchase of such bonds.

On or before the date 120 days prior to the end of the Long Period, Metropolitan may request WFMCS to purchase the 2020B Senior Revenue Bonds for another Long Period, or Metropolitan may seek to remarket the 2020B Senior Revenue Bonds to another bank or in the public debt markets in a new interest rate mode or at a fixed interest rate. In the event the 2020B Bonds are not purchased by WFMCS for a subsequent Long Period, Metropolitan is obligated under the 2020 Direct Purchase Agreement to cause 2020B Senior Revenue Bonds that have not been converted to another interest rate mode or remarketed to a purchaser or purchasers other than WFMCS (“Unremarketed 2020B Bonds”) to be redeemed on the Mandatory Tender Date; provided, that if no default or event of default under the 2020 Direct Purchase Agreement shall have occurred and be continuing and the representations and warranties of Metropolitan shall be true and correct on the Mandatory Tender Date, then the principal amount of the Unremarketed 2020B Senior Revenue Bonds shall be due and payable on the date that is 30 days following the Mandatory Tender Date and shall accrue interest at the Purchaser Rate, a fluctuating interest per annum equal to, the greatest of the (i) the Prime Rate, (ii) Federal Funds Rate plus one-half of one percent, and (iii) five percent, as specified in the 2020 Direct Purchase Agreement. If no default or event of default under the 2020 Direct Purchase Agreement shall have occurred and be continuing and the representations and warranties of Metropolitan shall be true and correct at the end of such 30-day period, the Unremarketed 2020B Senior Revenue Bonds will continue to bear interest at the Purchaser Rate plus, after 180 days from the Mandatory Tender Date, a spread of one percent, and the principal amount of such Unremarketed 2020B Senior Revenue Bonds may, at Metropolitan’s request, instead be subject to mandatory redemption in substantially equal installments payable every six months over an amortization period commencing six months after the Mandatory Tender Date and ending on the third anniversary of the Mandatory Tender Date.

Under the 2020 Direct Purchase Agreement, upon a failure by Metropolitan to pay principal or interest of any 2020B Senior Revenue Bonds, a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, certain acts of bankruptcy or insolvency, or other specified events of default (including if S&P shall have assigned a credit rating below “BBB–,” or if any of Fitch, S&P or Moody’s shall have assigned a credit rating below “A–” or “A3,” to Senior Revenue Bonds issued under the Senior Debt Resolutions), WFMCS has the right to cause a mandatory tender of the 2020B Senior Revenue Bonds and accelerate (depending on the event, seven days after the occurrence, or for certain events, only after 180 days’ notice) Metropolitan’s obligation to repay the 2020B Senior Revenue Bonds.

In connection with the execution of the 2020 Direct Purchase Agreement, Metropolitan designated the principal payable on the 2020B Senior Revenue Bonds on the Mandatory Tender Date as Excluded Principal Payments under the Senior Debt Resolutions and thus, for purposes of calculating Maximum Annual Debt Service, included the amount of principal and interest due and payable in connection therewith on a schedule of Assumed Debt Service. This schedule of Assumed Debt Service assumes that Metropolitan will pay the principal of the 2020B Senior Revenue Bonds over a period of 30 years at a fixed interest rate of approximately 5.00 percent.

Metropolitan has previously, and may in the future, enter into one or more self-liquidity revolving credit agreements which may be drawn upon for the purpose of paying the purchase price of any Self-

Liquidity Bonds issued by Metropolitan, the repayment obligations of Metropolitan under which may be secured as either Senior Parity Obligations or Subordinate Parity Obligations.

Term Mode Bonds

As of May 1, 2021, Metropolitan had outstanding \$2.8 million of Senior Revenue Bonds bearing interest in a term mode, comprised of its 2014 Series C-3 Bonds (the “Term Mode Bonds”). The Term Mode Bonds initially bear interest at a fixed rate for a specified period from their date of issuance, after which there shall be determined a new interest mode for such Term Mode Bonds (which may be another term mode, a daily mode, a weekly mode, a short-term mode or an index mode) or the Term Mode Bonds may be converted to bear fixed interest rates through the maturity date thereof. The owners of the Term Mode Bonds must tender for purchase, and Metropolitan must purchase, all of the Term Mode Bonds on the specified scheduled mandatory tender date of each term period for such Term Mode Bonds. The Term Mode Bonds outstanding as of May 1, 2021, are summarized in the following table:

Term Mode Bonds		
Series	Original Principal Amount Issued	Next Scheduled Mandatory Tender Date
2014 C-3	\$ 2,810,000	October 1, 2021 ⁽¹⁾

Source: Metropolitan.

⁽¹⁾ The Term Mode Bonds are to be refunded by Metropolitan’s Water Revenue Refunding Bonds, 2021 Series B.

Metropolitan will pay the principal of, and interest on, the Term Mode Bonds on parity with its other Senior Revenue Bonds. Metropolitan anticipates that it will pay the purchase price of tendered Term Mode Bonds from the proceeds of remarketing such Term Mode Bonds or from other available funds. Metropolitan’s obligation to pay the purchase price of any tendered Term Mode Bonds is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. Purchase price payments of Term Mode Bonds are subordinate to both the Senior Revenue Bonds and Senior Parity Obligations and to the Subordinate Revenue Bonds and Subordinate Parity Obligations. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of Term Mode Bonds in connection with any scheduled mandatory tender. If the purchase price of the Term Mode Bonds is not paid from the proceeds of remarketing or other funds following a scheduled mandatory tender, such Term Mode Bonds will then bear interest at a default rate of up to 12 percent per annum until purchased by Metropolitan or redeemed. Failure to pay the purchase price of Term Mode Bonds on a scheduled mandatory tender date is a default under the related paying agent agreement, upon the occurrence and continuance of which a majority in aggregate principal amount of the owners of such Term Mode Bonds may elect a bondholders’ committee to exercise rights and powers of such owners under such paying agent agreement. Failure to pay the purchase price of Term Mode Bonds on a scheduled mandatory tender date is not a default under the Senior Debt Resolutions. If the purchase price of the Term Mode Bonds is not paid on a scheduled mandatory tender date, such Term Mode Bonds will also be subject to special mandatory redemption, in part, 18, 36 and 54 months following the purchase default. Any such special mandatory redemption payment will constitute an obligation payable on parity with the Senior Revenue Bonds and Senior Parity Obligations.

Senior Parity Obligations

Short-Term Revolving Credit Facility. In April 2016, Metropolitan entered into a noteholder’s agreement (such agreement as subsequently amended, the “RBC Short-Term Revolving Credit Facility”) with RBC Municipal Products, LLC (“RBC”) and a related note purchase agreement with RBC Capital Products, LLC, as the underwriter, for the issuance and sale by Metropolitan and the purchase by RBC of Metropolitan’s short-term Index Notes. Pursuant to the RBC Short-Term Revolving Credit Facility, Metropolitan may borrow, pay down and re-borrow amounts, through the issuance and sale from time to time of up to \$200 million of notes (including, subject to certain terms and conditions, notes to refund maturing

notes) to be purchased by RBC during the term of RBC's commitment thereunder (which commitment currently extends to April 5, 2022). As of May 1, 2021, Metropolitan had outstanding \$0 of short-term notes under the RBC Short-Term Revolving Credit Facility. Metropolitan expects to make a draw on the RBC Short-Term Revolving Credit Facility on or before June 30, 2021 and issue \$35,645,000 principal amount of short-term notes thereunder to provide temporary financing for the refunding of a portion of its outstanding Subordinate Water Revenue Refunding Bonds, 2017 Series B. A portion of the proceeds of Metropolitan's Water Revenue Refunding Bonds, 2021 Series B is expected to be applied to repay and redeem all of the then outstanding notes under the RBC Short-Term Revolving Credit Facility. Any unpaid principal remaining outstanding at the April 5, 2022 commitment end date of the RBC Short-Term Revolving Credit Facility is required to be paid by Metropolitan in quarterly installments over a period of approximately one year.

Notes under the RBC Short-Term Revolving Credit Facility bear interest at a variable rate of interest: for taxable borrowings, at a spread of 0.54 percent (so long as the current credit rating on Metropolitan's Senior Revenue Bonds issued under the Senior Debt Resolutions is maintained) to the one-month LIBOR; and for tax-exempt borrowings, at a spread of 0.38 percent (so long as the current credit rating on Metropolitan's Senior Revenue Bonds issued under the Senior Debt Resolutions is maintained) to the SIFMA Municipal Swap Index. Under the RBC Short-Term Revolving Credit Facility, upon a failure by Metropolitan to pay principal or interest of any note thereunder, a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, certain acts of insolvency, or other specified events of default (including a reduction in the credit rating assigned to Senior Revenue Bonds issued under the Senior Debt Resolutions by Fitch, S&P or Moody's below "A—" or "A3"), the bank has the right to terminate its commitments and may accelerate (depending on the event, seven days after the occurrence, or for certain events, only after 180 days' notice) Metropolitan's obligation to repay its borrowings. Metropolitan has secured its obligation to pay principal and interest on notes evidencing borrowings under the RBC Short-Term Credit Facility as Senior Parity Obligations.

In connection with the execution of the RBC Short-Term Revolving Credit Facility, Metropolitan designated the principal and interest payable on the notes thereunder as Excluded Principal Payments under the Senior Debt Resolutions and thus, for purposes of calculating Maximum Annual Debt Service, included the amount of principal and interest due and payable under the RBC Short-Term Revolving Credit Facility on a schedule of Assumed Debt Service. This schedule of Assumed Debt Service assumes that Metropolitan will pay the principal under the RBC Short-Term Revolving Credit Facility over a period of 30 years at a fixed interest rate of approximately 3.3 percent.

Metropolitan has previously, and may in the future, enter into one or more other or alternative short-term revolving credit facilities, the repayment obligations of Metropolitan under which may be secured as either Senior Parity Obligations or Subordinate Parity Obligations.

Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations

Subordinate Revenue Bonds

The water revenue bonds issued under the Subordinate Debt Resolutions outstanding as of May 1, 2021, are set forth below:

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Name of Issue	Principal Outstanding
Subordinate Water Revenue Bonds, 2016 Authorization Series A ⁽¹⁾⁽²⁾	\$ 175,000,000
Subordinate Water Revenue Refunding Bonds, 2017 Series A	232,715,000
Subordinate Water Revenue Refunding Bonds, 2017 Series B ⁽³⁾	142,575,000
Subordinate Water Revenue Bonds, 2017 Series C ⁽¹⁾	80,000,000
Subordinate Water Revenue Refunding Bonds, 2017 Series D ⁽¹⁾	95,630,000
Subordinate Water Revenue Refunding Bonds, 2017 Series E ⁽¹⁾	95,625,000
Subordinate Water Revenue Refunding Bonds, 2018 Series A	90,115,000
Subordinate Water Revenue Bonds, 2018 Series B	64,345,000
Subordinate Water Revenue Refunding Bonds, 2019 Series A	233,660,000
Subordinate Water Revenue Refunding Bonds, 2020 Series A	152,455,000
Total	\$1,362,120,000

Source: Metropolitan.

⁽¹⁾ Outstanding variable rate obligation.

⁽²⁾ To be refunded by Metropolitan's Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A.

⁽³⁾ Metropolitan expects to refund the \$35,645,000 principal amount of these bonds maturing on August 1, 2021 on or after their July 1, 2021 optional call date with notes issued under the RBC Short-Term Revolving Credit Facility as described above.

Variable Rate Bonds

As of May 1, 2021, of the \$1.36 billion outstanding Subordinate Revenue Bonds, \$446.3 million were variable rate obligations. The outstanding variable rate Subordinate Revenue Bonds (described under this caption “–Variable Rate Bonds”) are all bonds bearing interest in a LIBOR Index Mode or a SIFMA Index Mode (referred to herein as “Index Tender Bonds”). Metropolitan also has outstanding \$46.8 million short-term notes issued as variable rate Subordinate Parity Obligations (described under “–Subordinate Parity Obligations – Subordinate Short-Term Certificates” below).

Direct Purchase LIBOR Index Mode Bonds. In December 2016, Metropolitan entered into a Continuing Covenant Agreement with Bank of America, N.A. (“BANA,” and the “2016 BANA Agreement”), for the purchase by BANA and sale by Metropolitan of \$175 million Subordinate Water Revenue Bonds, 2016 Authorization Series A (the “Subordinate 2016 Series A Bonds”), which was the first series of bonds issued under the Subordinate Debt Resolutions. Proceeds were used to reimburse Metropolitan for the purchase of the Delta Islands in the San Francisco Bay\Sacramento-San Joaquin River Delta that was funded from Metropolitan’s reserves in July 2016.

The Subordinate 2016 Series A Bonds bear interest at a variable rate of interest, at a spread of 0.32 percent (so long as the current credit rating on Metropolitan’s Senior Revenue Bonds issued under the Senior Debt Resolutions is maintained) to one-month LIBOR. Under the 2016 BANA Agreement, upon a failure by Metropolitan to pay principal or interest of any Subordinate 2016 Series A Bonds, a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, certain acts of insolvency, or other specified events of default (including if S&P shall have assigned a credit rating below “BBB–,” or if any of Fitch, S&P or Moody’s shall have assigned a credit rating below “BBB” or “Baa2,” to Senior Revenue Bonds issued under the Senior Debt Resolutions), BANA has the right to accelerate (depending on the event, seven days after the occurrence, or for certain events, only after 180 days’ notice) Metropolitan’s obligation to repay the Subordinate 2016 Series A Bonds. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a Subordinate Parity Obligation. The Subordinate 2016 Series A Bonds are Index Tender Bonds and are subject to mandatory tender for purchase on the scheduled mandatory tender date of June 21, 2021, or, if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction. On or before the scheduled mandatory tender date, Metropolitan may request an extension of the 2016 BANA Agreement for another tender period or may request BANA to purchase the

Subordinate 2016 Series A Bonds in another interest rate mode, or Metropolitan may seek to remarket the Subordinate 2016 Series A Bonds to another bank or in the public debt markets. In the event the 2016 BANA Agreement is not extended, Metropolitan is obligated under the 2016 BANA Agreement to cause unremarketed Subordinate 2016 Series A Bonds to be redeemed five business days after the scheduled mandatory tender date in the event the purchase price of the Subordinate 2016 Series A Bonds is not paid from the proceeds of a remarketing or other funds on the scheduled mandatory tender date. A failure to pay the purchase price of the Subordinate 2016 Series A Bonds upon a mandatory tender would constitute a default under the Subordinate Debt Resolutions if not remedied within five business days. Metropolitan expects to refund the Subordinate 2016 Series A Bonds prior to their scheduled mandatory tender date with proceeds of its Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A.

SIFMA Index Mode Bonds. Metropolitan's Subordinate Water Revenue Bonds, 2017 Series C, Subordinate Water Revenue Refunding Bonds, 2017 Series D and Subordinate Water Revenue Refunding Bonds, 2017 Series E (collectively, the "Subordinate 2017 Series C, D and E Bonds") bear interest at a rate that fluctuates weekly based on the SIFMA Municipal Swap Index plus a spread. The Subordinate 2017 Series C, D and E Bonds are Index Tender Bonds and are subject to mandatory tender under certain circumstances, including on certain scheduled mandatory tender dates (unless earlier remarketed or otherwise retired). Metropolitan anticipates that it will pay the purchase price of tendered Subordinate 2017 Series C, D and E Bonds from the proceeds of remarketing such Index Tender Bonds or from other available funds. Metropolitan's obligation to pay the purchase price of any such tendered Subordinate 2017 Series C, D and E Bonds is a special limited obligation of Metropolitan payable solely from Net Operating Revenues subordinate to the Senior Revenue Bonds and Senior Parity Obligations and on parity with the other outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of Subordinate 2017 Series C, D and E Bonds in connection with a scheduled mandatory tender. Failure to pay the purchase price of any Subordinate 2017 Series C, D and E Bonds on a scheduled mandatory tender date for such Index Tender Bonds for a period of five business days following written notice by any Owner of such Subordinate 2017 Series C, D and E Bonds will constitute an event of default under the Subordinate Debt Resolutions, upon the occurrence and continuance of which the owners of 25 percent in aggregate principal amount of the Subordinate Revenue Bonds then outstanding may elect a bondholders' committee to exercise rights and powers of such owners under the Subordinate Debt Resolutions, including the right to declare the entire unpaid principal of the Subordinate Revenue Bonds then outstanding to be immediately due and payable.

The current mandatory tender dates and related tender periods for the Index Tender Bonds outstanding as of May 1, 2021, are summarized in the following table:

Index Tender Bonds				
Series	Date of Issuance	Original Principal Amount Issued	Next Scheduled Mandatory Tender Date	Maturity Date
Subordinate 2016 Authorization Series A	December 21, 2016	\$175,000,000	June 21, 2021 ⁽¹⁾	July 1, 2045
Subordinate 2017 Series C	July 3, 2017	80,000,000	May 21, 2024 ⁽²⁾	July 1, 2047
Subordinate 2017 Refunding Series D	July 3, 2017	95,630,000	May 21, 2024 ⁽²⁾	July 1, 2037
Subordinate 2017 Refunding Series E	July 3, 2017	<u>95,625,000</u>	May 21, 2024 ⁽²⁾	July 1, 2037
Total		\$446,255,000		

Source: Metropolitan.

⁽¹⁾ To be refunded by Metropolitan's Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A.

⁽²⁾ Scheduled mandatory tender date established in connection with the remarketing of the bonds on May 19, 2021 in a new tender period.

Subordinate Parity Obligations

Subordinate Short-Term Certificates. In August 2019, Metropolitan entered into an amended and restated note purchase and continuing covenant agreement with BANA (the “Subordinate Refunding Note Purchase Agreement”) for the purchase by BANA and sale by Metropolitan of Metropolitan’s \$46.8 million principal amount of Short-Term Revenue Refunding Certificates, Series 2019 A (the “2019A Subordinate Short-Term Refunding Notes”). The \$46.8 principal amount of 2019A Subordinate Short-Term Refunding Notes issued by Metropolitan and purchased by BANA on August 1, 2019 refunded all of the outstanding notes previously issued by Metropolitan under a prior note purchase and continuing covenant agreement entered into in 2018 between Metropolitan and BANA. Such refunded notes were issued for the purpose of providing advance funding to support the California WaterFix as authorized by the Board on July 10, 2018. On May 2, 2019, DWR withdrew its approval of California WaterFix and announced plans to pursue a new planning and environmental review process for a single tunnel Bay-Delta conveyance project. See “METROPOLITAN’S WATER SUPPLY–State Water Project –Bay-Delta Proceedings Affecting State Water Project – Bay-Delta Planning Activities; Delta Conveyance” in this Appendix A.

The 2019A Subordinate Short-Term Refunding Notes bear interest at a fluctuating per annum interest rate, equal to one-month LIBOR plus a spread of 0.32 percent (which spread is subject to increase on a scale based upon the then applicable credit ratings on Metropolitan’s Senior Revenue Bonds), not to exceed 18 percent per annum. The scheduled maturity date of the 2019A Subordinate Short-Term Refunding Notes is August 1, 2021. On or before the date 120 days prior to the scheduled maturity date of the 2019A Subordinate Short-Term Refunding Notes, Metropolitan may request BANA to extend its commitment and to refund and exchange the 2019A Subordinate Short-Term Refunding Notes with new refunding notes, or Metropolitan may seek to refund the 2019A Subordinate Short-Term Refunding Notes with another bank or to refinance the 2019A Subordinate Short-Term Refunding Notes on a short or long-term basis in the public debt markets. Metropolitan expects to refund the 2019A Subordinate Short-Term Refunding Notes prior to their scheduled maturity date with proceeds of its Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A.

Concurrently with the execution of the Subordinate Refunding Note Purchase Agreement, in August 2019, Metropolitan entered into an additional note purchase and continuing covenant agreement (the “2019 Subordinate Note Purchase Agreement”) with BANA for the purchase by BANA and sale by Metropolitan, from time to time, of Metropolitan’s Short-Term Revenue Certificates, Series 2019. Pursuant to the terms of the 2019 Subordinate Note Purchase Agreement, Metropolitan may borrow, through the issuance and sale from time to time of short-term notes (with maturity dates not exceeding one year from their delivery date), an aggregate principal amount not to exceed \$39.2 million (including, subject to certain terms and conditions, notes to refund maturing notes) to be purchased by BANA during the term of BANA’s commitment thereunder (the stated expiration date of which is July 30, 2021). As of May 1, 2021, Metropolitan had outstanding \$0 of Short-Term Revenue Certificates under the 2019 Subordinate Note Purchase Agreement.

Notes under the 2019 Subordinate Note Purchase Agreement bear interest at a fluctuating per annum interest rate: (i) for taxable borrowings, equal to one-month LIBOR plus a spread of 0.32 percent; and (ii) for tax-exempt borrowings, equal to 80 percent of one-month LIBOR plus a spread of 0.20 percent; in each case, which spread is subject to increase on a scale based upon the then applicable credit ratings on Metropolitan’s Senior Revenue Bonds. The per annum interest rate on notes under 2019 Subordinate Note Purchase Agreement shall not exceed 12 percent on notes issued for new money purposes and shall not exceed 18 percent on notes issued to refund maturing notes.

Metropolitan has secured its obligations to pay principal and interest under the Subordinate Refunding Note Purchase Agreement and the 2019 Subordinate Note Purchase Agreement as Subordinate Parity Obligations, payable from Net Operating Revenues on a basis junior and subordinate to Metropolitan’s Senior Revenue Bonds and Senior Parity Obligations and on parity with Metropolitan’s Subordinate Revenue Bonds.

Under each of Subordinate Refunding Note Purchase Agreement and the 2019 Subordinate Note Purchase Agreement, upon a failure by Metropolitan to pay principal or interest of any note thereunder, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, certain acts of bankruptcy or insolvency, or other specified events of default (including if S&P shall have assigned a credit rating below “BBB–,” or if any of Fitch, S&P or Moody’s shall have assigned a credit rating below “BBB” or “Baa2,” to Metropolitan’s Senior Revenue Bonds), BANA has the right to terminate its commitments thereunder and may accelerate (depending on the event, seven days after the occurrence, or for certain events, only after 180 days’ notice) Metropolitan’s obligation to repay its borrowings. Upon the occurrence and during the continuation of an event of default under the Subordinate Refunding Note Purchase Agreement or the 2019 Subordinate Note Purchase Agreement, outstanding notes thereunder would bear interest at a default rate of 12 percent per annum.

Other Junior Obligations

Metropolitan currently is authorized to issue up to \$400,000,000 of Commercial Paper Notes payable from Net Operating Revenues on a basis subordinate to both the Senior Revenue Bonds and Senior Parity Obligations and to the Subordinate Revenue Bonds and Subordinate Parity Obligations. Although no Commercial Paper Notes are currently outstanding, the authorization remains in full force and effect and Metropolitan may issue Commercial Paper Notes from time to time.

General Obligation Bonds

As of May 1, 2021, \$26,830,000 aggregate principal amount of general obligation bonds payable from *ad valorem* property taxes were outstanding. See “METROPOLITAN REVENUES—General” and “Revenue Allocation Policy and Tax Revenues” in this Appendix A. Metropolitan’s revenue bonds are not payable from the levy of *ad valorem* property taxes.

General Obligation Bonds	Amount Issued⁽¹⁾	Principal Outstanding
Waterworks General Obligation Refunding Bonds, 2019 Series A	\$16,755,000	\$13,165,000
Water Works General Obligation Refunding Bonds, 2020 Series A	<u>13,665,000</u>	<u>13,665,000</u>
Total	<u>\$30,420,000</u>	<u>\$26,830,000</u>

Source: Metropolitan.

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

State Water Contract Obligations

General. As described herein, in 1960, Metropolitan entered into its State Water Contract with DWR to receive water from the State Water Project. All expenditures for capital and operations, maintenance, power and replacement costs associated with the State Water Project facilities used for water delivery are paid for by the 29 Contractors that have executed State water supply contracts with DWR, including Metropolitan. Contractors are obligated to pay allocable portions of the cost of construction of the system and ongoing operating and maintenance costs through at least 2035, regardless of quantities of water available from the project. Other payments are based on deliveries requested and actual deliveries received, costs of power required for actual deliveries of water, and offsets for credits received. In exchange, Contractors have the right to participate in the system, with an entitlement to water service from the State Water Project and the right to use the portion of the State Water Project conveyance system necessary to deliver water to them at no additional cost as long as capacity exists. Metropolitan’s State Water Contract accounts for nearly one-half of the total entitlement for State Water Project water contracted for by all Contractors.

DWR and other State Water Contractors, including Metropolitan, have reached an Agreement in Principle to extend their State water supply contracts to 2085 and to make certain changes related to the financial management of the State Water Project in the future. See “METROPOLITAN’S WATER SUPPLY–State Water Project” in this Appendix A.

Metropolitan’s payment obligation for the State Water Project for the fiscal year ended June 30, 2020 was \$518.9 million, which amount reflects prior year’s credits of \$33.2 million. For the fiscal year ended June 30, 2020, Metropolitan’s payment obligations under the State Water Contract were approximately 35 percent of Metropolitan’s total annual expenses. A portion of Metropolitan’s annual property tax levy is for payment of State Water Contract obligations, as described above under “METROPOLITAN REVENUES–Revenue Allocation Policy and Tax Revenues” in this Appendix A. Any deficiency between tax levy receipts and Metropolitan’s State Water Contract obligations is expected to be paid from Operating Revenues, as defined in the Senior Debt Resolutions. See Note 9(a) to Metropolitan’s audited financial statements in Appendix B for an estimate of Metropolitan’s payment obligations under the State Water Contract. See also “–Power Sources and Costs; Related Long-Term Commitments” for a description of current and future costs for electric power required to operate State Water Project pumping systems and a description of litigation involving the federal relicensing of the Hyatt-Thermalito hydroelectric generating facilities at Lake Oroville.

Metropolitan capitalizes its share of the State Water Project capital costs as participation rights in State Water Project facilities as such costs are billed by DWR. Unamortized participation rights essentially represent a prepayment for future water deliveries through the State Water Project system. Metropolitan’s share of system operating and maintenance costs are annually expensed.

DWR and various subsets of the State Water Contractors have entered into amendments to the State water supply contracts related to the financing of certain State Water Project facilities. The amendments establish procedures to provide for the payment of construction costs financed by DWR bonds by establishing separate subcategories of charges to produce the revenues required to pay all of the annual financing costs (including coverage on the allocable bonds) relating to the financed project. If any affected Contractor defaults on payment under certain of such amendments, the shortfall may be collected from the non-defaulting affected Contractors, subject to certain limitations.

These amendments represent additional long-term obligations of Metropolitan, as described below.

Devil Canyon-Castaic Contract. On June 23, 1972, Metropolitan and five other Southern California public agencies entered into a contract (the “Devil Canyon-Castaic Contract”) with DWR for the financing and construction of the Devil Canyon and Castaic power recovery facilities, located on the aqueduct system of the State Water Project. Under this contract, DWR agreed to build the Devil Canyon and Castaic facilities, using the proceeds of revenue bonds issued by DWR under the State Central Valley Project Act. DWR also agreed to use and apply the power made available by the construction and operation of such facilities to deliver water to Metropolitan and the other contracting agencies. Metropolitan, in turn, agreed to pay to DWR 88 percent of the debt service on the revenue bonds issued by DWR. For calendar year 2020, this represented a payment of \$7.8 million. In addition, Metropolitan agreed to pay 78.5 percent of the operation and maintenance expenses of the Devil Canyon facilities and 96 percent of the operation and maintenance expenses of the Castaic facilities. Metropolitan’s obligations under the Devil Canyon-Castaic Contract continue until the bonds are fully retired in 2022 even if DWR is unable to operate the facilities or deliver power from these facilities.

Off-Aqueduct Power Facilities. In addition to system “on-aqueduct” power facilities costs, DWR has, either on its own or by joint venture, financed certain off-aqueduct power facilities. The power generated is utilized by the system for water transportation and other State Water Project purposes. Power generated in excess of system needs is marketed to various utilities and the California Independent System Operator

(“CAISO”). Metropolitan is entitled to a proportionate share of the revenues resulting from sales of excess power. By virtue of a 1982 amendment to the State Water Contract and the other water supply contracts, Metropolitan and the other water Contractors are responsible for paying the capital and operating costs of the off-aqueduct power facilities regardless of the amount of power generated.

East Branch Enlargement Amendment. In 1986, Metropolitan’s State Water Contract and the water supply contracts of certain other State Water Contractors were amended for the purpose, among others, of financing the enlargement of the East Branch of the California Aqueduct. Under the amendment, enlargement of the East Branch can be initiated either at Metropolitan’s request or by DWR finding that enlargement is needed to meet demands. Metropolitan, the other State Water Contractors on the East Branch, and DWR are currently in discussions on the timetable and plan for future East Branch enlargement actions.

The amendment establishes a separate subcategory of the Transportation Charge under the State Water Contract for the East Branch Enlargement and provides for the payment of costs associated with financing and operating the East Branch Enlargement. Under the amendment, the annual financing costs for such facilities financed by bonds issued by DWR are allocated among the participating Contractors based upon the delivery capacity increase allocable to each participating Contractor. Such costs include, but are not limited to, debt service, including coverage requirements, deposits to reserves, and certain operation and maintenance expenses, less any credits, interest earnings or other moneys received by DWR in connection with this facility.

If any participating Contractor defaults on payment of its allocable charges under the amendment, among other things, the non-defaulting participating Contractors may assume responsibility for such charges and receive delivery capability that would otherwise be available to the defaulting participating Contractor in proportion to the non-defaulting Contractor’s participation in the East Branch Enlargement. If participating Contractors fail to cure the default, Metropolitan will, in exchange for the delivery capability that would otherwise be available to the defaulting participating Contractor, assume responsibility for the capital charges of the defaulting participating Contractor.

Water System Revenue Bond Amendment. In 1987, the State Water Contract and other water supply contracts were amended for the purpose of financing State Water Project facilities through revenue bonds. This amendment establishes a separate subcategory of the Delta Water Charge and the Transportation Charge under the State water supply contracts for projects financed with DWR water system revenue bonds. This subcategory of charge provides the revenues required to pay the annual financing costs of the bonds and consists of two elements. The first element is an annual charge for repayment of capital costs of certain revenue bond financed water system facilities under the existing water supply contract procedures. The second element is a water system revenue bond surcharge to pay the difference between the total annual charges under the first element and the annual financing costs, including coverage and reserves, of DWR’s water system revenue bonds.

If any Contractor defaults on payment of its allocable charges under this amendment, DWR is required to allocate a portion of the default to each of the nondefaulting Contractors, subject to certain limitations, including a provision that no nondefaulting Contractor may be charged more than 125 percent of the amount of its annual payment in the absence of any such default. Under certain circumstances, the nondefaulting Contractors would be entitled to receive an allocation of the water supply of the defaulting Contractor.

The following table sets forth Metropolitan’s projected costs of State Water Project water based upon DWR’s Appendix B to Bulletin 132-19 (an annual report produced by DWR setting forth data and computations used by the State in determining State Water Contractors’ Statements of Charges), Metropolitan’s share of the forecasted costs associated with the planning of a single tunnel Bay-Delta conveyance project (see “METROPOLITAN’S WATER SUPPLY-State Water Project –Bay-Delta

Proceedings Affecting State Water Project – Bay-Delta Planning Activities; Delta Conveyance”), and power costs forecasted by Metropolitan.

The projections for fiscal year 2020-21 are revised from the projections adopted in the fiscal year 2020-21 and 2021-22 biennial budget and based on results through March 2021. The projections for fiscal years 2021-22 through 2024-25 reflect Metropolitan’s biennial budget for fiscal years 2020-21 and 2021-22, which includes a ten-year financial forecast. See also “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A. The projections reflect certain assumptions concerning future events and circumstances which may not occur or materialize. Actual costs may vary from these projections if such events and circumstances do not occur as expected or materialize, and such variances may be material.

**PROJECTED COSTS OF METROPOLITAN
FOR STATE WATER CONTRACT AND DELTA CONVEYANCE
(Dollars in Millions)**

Year Ending June 30	Capital Costs⁽¹⁾	Minimum OMP&R⁽¹⁾	Power Costs⁽²⁾	Refunds & Credits⁽¹⁾	Delta Conveyance⁽³⁾	Total⁽⁴⁾
2021	\$180.4	\$262.0	\$106.7	\$(39.9)	\$25.0	\$534.3
2022	211.9	275.2	212.4	(70.1)	25.0	654.4
2023	189.4	283.9	212.2	(63.5)	50.0	672.0
2024	209.9	294.9	212.5	(64.0)	--	653.3
2025	228.2	309.8	218.9	(66.8)	--	690.1

Source: Metropolitan.

- (1) Capital Costs, Minimum Operations, Maintenance, Power and Replacement (“OMP&R”) and Refunds and Credits projections are based on DWR’s Appendix B to Bulletin 132-19. Capital costs reflect DWR’s October 2019 capital expenditures projections based upon its condition assessment review of State Water Project repair and replacement needs.
- (2) Power costs are forecasted by Metropolitan based on a 50 percent State Water Project allocation. Availability of State Water Project supplies vary and deliveries may include transfers and storage. All deliveries are based upon availability, as determined by hydrology, water quality and wildlife conditions. See “METROPOLITAN’S WATER SUPPLY–State Water Project” and “–Endangered Species Act and Other Environmental Considerations” in this Appendix A.
- (3) Based on Metropolitan’s share of the forecasted planning costs for a single tunnel project. Does not include any capital costs associated with any future proposed Bay-Delta conveyance project.
- (4) Totals may not add due to rounding.

Power Sources and Costs; Related Long-Term Commitments

Current and future costs for electric power required for operating the pumping systems of the CRA and the State Water Project are a substantial part of Metropolitan’s overall expenses. Metropolitan’s power costs include various ongoing fixed annual obligations under its contracts with the U.S. Department of Energy Western Area Power Administration and the Bureau of Reclamation for power from the Hoover and Parker Power Plants respectively. Expenses for electric power for the CRA for the fiscal years 2018-19 and 2019-20 were approximately \$39.3 million and \$39.6 million, respectively. Expenses for electric power and transmission service for the State Water Project for fiscal years 2018-19 and 2019-20 were approximately \$127.5 million and \$134.0 million, respectively. Electricity markets are subject to volatility and Metropolitan is unable to give any assurance with respect to the magnitude of future power costs.

Colorado River Aqueduct. Approximately 50 percent of the annual power requirements for pumping at full capacity (1.25 million acre-feet of Colorado River water) in Metropolitan’s CRA are secured through long-term contracts for energy generated from federal facilities located on the Colorado River (Hoover Power Plant and Parker Power Plant). Payments made under the Hoover Power Plant and Parker Power Plant

contracts are operation and maintenance expenses. These contracts provide Metropolitan with reliable and economical power resources to pump Colorado River water to Metropolitan's service area.

As provided for under the Hoover Power Allocation Act of 2011 (H.R. 470), Metropolitan has executed a 50-year agreement with the Western Area Power Administration for the continued purchase of electric energy generated at the Hoover Power Plant through September 2067, succeeding Metropolitan's prior Hoover contract that expired on September 30, 2017.

Depending on pumping conditions, Metropolitan can require additional energy in excess of the base resources available to Metropolitan from the Hoover and Parker Power Plants. The remaining up to approximately 50 percent of annual pumping power requirements for full capacity pumping on the CRA is obtained through energy purchases from municipal and investor-owned utilities, third party suppliers, or the CAISO markets. Metropolitan is a member of the Western Systems Power Pool ("WSPP") and utilizes its industry standard form contract to make wholesale power purchases at market cost.

Gross diversions of water from Lake Havasu for fiscal years 2018-19 and 2019-20 were approximately 798,000 acre-feet and 552,000 acre-feet, respectively, including Metropolitan's basic apportionment of Colorado River water and supplies from water transfer and storage programs. In fiscal years 2018-19 and 2019-20, Metropolitan purchased approximately 395,000 and sold 54,000 megawatt-hours, respectively, of additional energy.

Metropolitan has agreements with the Arizona Electric Power Cooperative ("AEPCO") to provide transmission and energy purchasing services to support CRA power operations. The term of these agreements extends to December 31, 2035.

State Water Project. The State Water Project's power requirements are met from a diverse mix of resources, including State-owned hydroelectric generating facilities. DWR has short-term contracts with Metropolitan (hydropower), Kern River Conservation District (hydropower), Northern California Power Agency (natural gas generation), Wells Fargo Company (Solar), Dominion Solar Holdings (Solar), and S-Power Corporation (Solar). The remainder of the State Water Project power needs is met by purchases from the CAISO.

DWR is seeking renewal of the license issued by FERC for the State Water Project's Hyatt-Thermalito hydroelectric generating facilities at Lake Oroville. A Settlement Agreement containing recommended conditions for the new license was submitted to FERC in March 2006. That agreement was signed by over 50 stakeholders, including Metropolitan and other State Water Contractors. With only a few minor modifications, FERC staff recommended that the Settlement Agreement be adopted as the condition for the new license. DWR issued a final EIR for the relicensing project on July 22, 2008.

Butte County and Plumas County filed separate lawsuits against DWR challenging the adequacy of the final EIR. This lawsuit also named all of the signatories to the Settlement Agreement, including Metropolitan, as "real parties in interest," since they could be adversely affected by this litigation. On September 5, 2019, the Court of Appeal ruled that review pursuant to CEQA is preempted in certain respects by the Federal Power Act. The case is now before the California Supreme Court. If the decision is affirmed, the case will be dismissed. If the California Supreme Court finds in favor of the plaintiffs, the case will be remanded to the California Court of Appeal for a determination of sufficiency regarding the merits of the CEQA petition.

Regulatory permits and authorizations are also required before the new license can take effect. In December 2016, NMFS issued a biological opinion setting forth the terms and conditions under which the relicensing project must operate in order to avoid adverse impacts to threatened and endangered species. This was the last major regulatory requirement prior to FERC issuing a new license. Following the 2017 Oroville

Dam spillway incident, Butte County, the City of Oroville, and others requested that FERC not issue a new license until an Independent Forensic Team (“IFT”) delivered their final report to FERC and FERC has had adequate time to review the report. The Final IFT report was delivered on January 5, 2018. DWR submitted a plan to address the findings of the report to FERC on March 12, 2018. See “METROPOLITAN’S WATER SUPPLY–State Water Project –2017 Oroville Dam Spillway Incident.” Metropolitan anticipates that FERC will issue the new license; however, the timeframe for FERC approval is not currently known. However, FERC has issued one-year renewals of the existing license since its initial expiration date on January 31, 2007 and is expected to issue successive one-year renewals until a new license is obtained.

DWR receives transmission service from the CAISO. The transmission service providers participating in the CAISO may seek increased transmission rates, subject to the approval of FERC. DWR has the right to contest any such proposed increase. DWR may also be subject to increases in the cost of transmission service as new electric grid facilities are constructed.

On September 10, 2018, Governor Brown signed SB 100 into law, which took effect on January 1, 2019. SB 100 establishes a goal of providing 100 percent carbon-free electricity by 2045 and increases the 2030 Renewables Portfolio Standard (“RPS”) requirement for retail electric utilities from 50 percent to 60 percent. Simultaneously, the Governor announced Executive Order B-55-18 directing state agencies to develop a framework to achieve and maintain carbon neutrality by 2045. Metropolitan and DWR are not subject to the RPS requirements. However, as a state agency, DWR is subject to the Executive Order. DWR has an existing climate action plan in order to achieve carbon neutrality by 2045.

October 9, 2019, Governor Newsom signed SB 49 into law. SB 49 requires Natural Resources, in collaboration with the Energy Commission and the Department of Water Resources to assess by January 1, 2022 the opportunities and constraints for potential operational and structural upgrades to the State Water Project to aid California in achieving its climate and energy goals, and to provide associated recommendations consistent with California’s energy goals.

Defined Benefit Pension Plan and Other Post-Employment Benefits

Metropolitan is a member of the California Public Employees’ Retirement System (“PERS”), a multiple-employer pension system that provides a contributory defined-benefit pension for substantially all Metropolitan employees. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. A menu of benefit provisions is established by State statutes within the Public Employees’ Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with PERS.

Metropolitan makes contributions to PERS based on actuarially determined employer contribution rates. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration (“PERS Board”). Employees hired prior to January 1, 2013 are required to contribute 7.00 percent of their earnings (excluding overtime pay) to PERS. Pursuant to the current memoranda of understanding, Metropolitan contributes the requisite 7.00 percent contribution for all employees represented by the Management and Professional Employees Association, the Association of Confidential Employees, Supervisors and Professional Personnel Association and AFSCME Local 1902 and who were hired prior to January 1, 2012. Employees in all four bargaining units who were hired on or after January 1, 2012 but before January 1, 2013, pay the full 7.00 percent contribution to PERS for the first five years of employment. After the employee completes five years of employment, Metropolitan contributes the requisite 7.00 percent contribution. Metropolitan also contributes the entire 7.00 percent on behalf of unrepresented employees. Employees hired on or after January 1, 2013 and who are “new” PERS members as defined by Public Employees’ Pension Reform Act of 2013 pay a member contribution of 6.00 percent in fiscal years 2018-19 through 2019-20 and 7.25 percent in fiscal years 2020-21 through 2021-22. In addition, Metropolitan is

required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS. The fiscal year contributions were/are based on the following actuarial reports and discount rates:

Fiscal Year	Actuarial Valuation	Discount Rate
2018-19	June 30, 2016	7.375%
2019-20	June 30, 2017	7.25%
2020-21	June 30, 2018	7.00%
2021-22	June 30, 2019	7.00%

Metropolitan was required to contribute 25.97 percent and 29.97 percent of annual projected payroll for fiscal years 2018-19 and 2019-20, respectively. Metropolitan's actual contribution for fiscal years 2018-19 and 2019-20 were \$68.3 million or 32.14 percent of annual covered payroll and \$77.6 million or 34.38 percent of annual covered payroll, respectively. The fiscal years 2018-19 and 2019-20 actual contribution included \$11.8 million or 5.56 percent and \$11.5 million or 5.10 percent of annual covered payroll, respectively, for Metropolitan's pick-up of the employees' 7.00 percent share. For fiscal years 2020-21 and 2021-22, Metropolitan is required to contribute 32.43 percent and 34.39 percent, respectively, of annual projected payroll, in addition to member contributions paid by Metropolitan.

Metropolitan's required contributions to PERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. Many assumptions are used to estimate the ultimate liability of pensions and the contributions that will be required to meet those obligations. The PERS Board has adjusted and may in the future further adjust certain assumptions used in the PERS actuarial valuations, which may increase Metropolitan's required contributions to PERS in future years. Accordingly, Metropolitan cannot provide any assurances that its required contributions to PERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions.

On December 21, 2016, the PERS Board approved lowering the discount rate to 7.00 percent over a three-year period. PERS has estimated that with a reduction in the rate of return to 7.00 percent, most employers could expect a rate increase of 1.00 percent to 3.00 percent of normal cost as a percent of payroll for miscellaneous plans and an increase in payments toward unfunded accrued liabilities of between 30 to 40 percent. As a result, required contributions of employers, including Metropolitan, are expected to increase.

Beginning with fiscal year 2017-18 PERS began collecting employer contributions towards the plan's unfunded liability as dollar amounts instead of the prior method of contribution rate. This change addresses potential funding issues that could arise from a declining payroll or reduction in the number of active members in the plan.

On December 19, 2017, the PERS Board adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases and inflation assumption for public agencies. These new assumptions were incorporated in the June 30, 2017 actuarial valuation and reflected in the required contribution for fiscal year 2019-20. In addition, the Board adopted a new asset portfolio as part of its Asset Liability Management. The new asset mix supports a 7.00 percent discount rate. The reduction of the inflation assumption will be implemented in two steps in conjunction with the decreases in the discount rate. For the June 30, 2017 valuation an inflation rate of

2.625 percent was used and for the June 30, 2018 and subsequent valuations, an inflation rate of 2.50 percent was/will be used.

The PERS Board has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the five-year ramp-up and ramp-down on unfunded accrued liability bases attributable to assumption changes and non-investment gains/losses. The new policy removes the five-year ramp-down on investment gains/losses. These changes will apply only to new unfunded accrued liability bases established on or after June 30, 2019.

The following table shows the funding progress of Metropolitan's pension plan.

Valuation Date	Accrued Liability (\$ in billions)	Market Value of Assets (\$ in billions)	Unfunded Accrued Liability (\$ in billions)	Funded Ratio
6/30/19 ⁽¹⁾	\$2.534	\$1.810	\$(0.724)	71.4%
6/30/18	\$2.433	\$1.744	\$(0.689)	71.7%
6/30/17	\$2.269	\$1.651	\$(0.618)	72.7%
6/30/16	\$2.166	\$1.524	\$(0.642)	70.3%
6/30/15	\$2.060	\$1.556	\$(0.504)	75.5%
6/30/14	\$1.983	\$1.560	\$(0.423)	78.7%
6/30/13	\$1.805	\$1.356	\$(0.449)	75.1%

⁽¹⁾ Most recent actuarial valuation available.

Source: California Public Employees' Retirement System.

The market value of assets reflected above is based upon the most recent actuarial valuation as of June 30, 2019. The actuarial valuation as of June 30, 2020 is not expected to be available before summer 2021. The June 30, 2020 valuation report will be used to establish the contribution requirements for fiscal year 2022-23. Increased volatility has been experienced in the financial markets in recent months and the market value at the time of the June 30, 2020 valuation is not yet known. Significant losses in market value or failure to achieve projected investment returns could substantially increase unfunded pension liabilities and future pension costs. See also "INTRODUCTION-COVID-19 Pandemic." However, as noted above, under the amortization policy adopted by PERS, changes in the unfunded accrued liability due to actuarial gains or losses are amortized over a fixed 20-year period with a five-year ramp up at the beginning and a five-year ramp down at the end of the amortization period, as a result of which the immediate fiscal impact of any one year's negative return on Metropolitan's contribution rates is reduced.

The following tables show the changes in Net Pension Liability and related ratios of Metropolitan's pension plan for fiscal years 2019-20 and 2018-19, and for fiscal years 2018-19 and 2017-18.

(Dollars in thousands)	06/30/20	6/30/19	Increase/ (Decrease)
Total Pension Liability	\$2,479,307	\$2,376,778	\$102,529
Plan Fiduciary Net Position	1,810,312	1,742,741	67,571
Plan Net Pension Liability	<u>\$ 668,995</u>	<u>\$ 634,037</u>	<u>\$ 34,958</u>
Plan fiduciary net positions as a % of the total pension liability	73.02%	73.32%	
Covered payroll	\$ 212,558	\$ 204,635	
Plan net pension liability as a % of covered payroll	314.74%	309.84%	
(Dollars in thousands)	06/30/19	6/30/18	Increase/ (Decrease)
Total Pension Liability	\$2,376,778	\$2,315,248	\$61,530
Plan Fiduciary Net Position	1,742,741	1,654,331	88,410
Plan Net Pension Liability	<u>\$ 634,037</u>	<u>\$ 660,917</u>	<u>\$(26,880)</u>
Plan fiduciary net positions as a % of the total pension liability	73.32%	71.45%	
Covered payroll	\$ 204,635	\$ 199,186	
Plan net pension liability as a % of covered payroll	309.84%	331.81%	

The Net Pension Liability for Metropolitan's Miscellaneous Plan for the fiscal years ended June 30, 2020 and 2019 was measured as of June 30, 2019 and June 30, 2018, respectively, and the Total Pension Liability used to calculate the Net Pension Liability as of such dates was determined by an annual actuarial valuation as of June 30, 2018 and June 30, 2017, respectively.

For more information on the plan, see APPENDIX B—"THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITORS' REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019 AND BASIC FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2021 AND 2020 (UNAUDITED)."

Metropolitan currently provides post-employment medical insurance to retirees and pays the post-employment medical insurance premiums to PERS. On January 1, 2012, Metropolitan implemented a longer vesting schedule for retiree medical benefits, which applies to all new employees hired on or after January 1, 2012. Payments for this benefit were \$27.3 million in fiscal year 2018-19 and \$45.3 million in fiscal year 2019-20. Under Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Metropolitan is required to account for and report the outstanding obligations and commitments related to such benefits, commonly referred to as other post-employment benefits ("OPEB"), on an accrual basis.

The actuarial valuations dated June 30, 2017 and June 30, 2019, were released in March of 2018 and June of 2020, respectively. The 2017 valuation indicated that the Actuarially Determined Contribution ("ADC") in fiscal year 2019-20 was \$28.1 million and 2019 valuation indicate that the ADC will be \$23.2 million and \$23.6 million in fiscal years 2020-21 and 2021-22, respectively. The ADC was based on

the entry-age normal actuarial cost method with contributions determined as a level percent of pay. The actuarial assumptions included the following:

	June 30, 2019 Valuation	June 30, 2017 Valuation
Investment Rate of Return	6.75%	6.75%
Inflation	2.75%	2.75%
Salary Increases	3.00%	3.00%
Health Care Cost Trends	Medicare – starting at 6.3%, grading down to 4.0% over fifty-five years. Non-Medicare – starting at 7.25%, grading down to 4.0% over fifty-five years	Medicare – starting at 6.5%, grading down to 4.0% over fifty-seven years. Non-Medicare – starting at 7.5%, grading down to 4.0% over fifty-seven years.
Mortality, Termination, Disability	CalPERS 1997-2015 Experience Study Mortality projected fully generational with Scale MP-2019	CalPERS 1997-2011 Experience Study Mortality projected fully generational with Scale MP-2017
Affordable Care Act (ACA) Excise Tax	Not included. Repealed in December 2019.	2% load on retiree medical premium subsidy

As of June 30, 2019, the date of the most recent OPEB actuarial report, the unfunded actuarial accrued liability was estimated to be \$164.3 million and projected to be \$156.7 million at June 30, 2020. The amortization period for the unfunded actuarial accrued liability is 23 years closed with 17 years remaining as of fiscal year end 2020 and the amortization period of actuarial gains and losses is 15 years closed. Adjustments to the ADC include amortization of the unfunded actuarial accrued liability and actuarial gains and losses.

In September 2013, Metropolitan's Board established an irrevocable OPEB trust fund with the California Employers' Retiree Benefit Trust Fund. The market value of assets in the trust as of June 30, 2020 was \$287.7 million. As part of its biennial budget process, the Board approved the full funding of the ADC for fiscal years 2020-21 and 2021-22.

As noted above, the COVID-19 pandemic and related economic consequences have contributed to increased volatility in the financial markets. Declines in the market value of the OPEB trust fund or failure to achieve projected investment returns could negatively affect the funding status of the trust fund and increase ADCs in the future. See also "INTRODUCTION–COVID-19 Pandemic."

The following tables show the changes in Net OPEB Liability and related ratios of Metropolitan's OPEB plan for fiscal years 2019-20 and 2018-19, and for fiscal years 2018-19 and 2017-18.

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(Dollars in thousands)	06/30/20	6/30/19	Increase/ (Decrease)
Total OPEB Liability	\$434,759	\$468,185	\$(33,426)
Plan Fiduciary Net Position	266,773	239,851	26,922
Plan Net OPEB Liability	<u>\$167,986</u>	<u>\$228,334</u>	<u>\$(60,348)</u>
Plan fiduciary net positions as a % of the total OPEB liability	61.36%	51.23%	
Covered payroll	\$212,558	\$204,635	
Plan net OPEB liability as a % of covered payroll	79.03%	111.58%	
(Dollars in thousands)	06/30/19	6/30/18	Increase/ (Decrease)
Total OPEB Liability	\$468,185	\$448,095	\$ 20,090
Plan Fiduciary Net Position	239,851	207,526	32,325
Plan Net OPEB Liability	<u>\$228,334</u>	<u>\$240,569</u>	<u>\$(12,235)</u>
Plan fiduciary net positions as a % of the total OPEB liability	51.23%	46.31%	
Covered payroll	\$204,635	\$199,186	
Plan net OPEB liability as a % of covered payroll	111.58%	120.78%	

The Net OPEB Liability for the fiscal years ended June 30, 2020 and 2019 was measured as of June 30, 2019 and June 30, 2018, respectively, and the Total OPEB Liability used to calculate the Net OPEB Liability as of such dates was determined by an annual actuarial valuation as of June 30, 2019 and June 30, 2017, respectively.

HISTORICAL AND PROJECTED REVENUES AND EXPENSES

The “Historical and Projected Revenues and Expenses” table below provides a summary of revenues and expenses of Metropolitan prepared on a modified accrual basis. This is consistent with the biennial budget for fiscal years 2020-21 and 2021-22, which includes a ten-year financial forecast. The table does not reflect the accrual basis of accounting, which is used to prepare Metropolitan’s annual audited financial statements. The modified accrual basis of accounting varies from the accrual basis of accounting in the following respects: depreciation and amortization are not recorded and payments for debt service and pay-as-you-go construction are recorded when paid. Under the modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned, and expenses are recognized when incurred. Thus, water revenues are recognized in the month the water transaction occurs and expenses are recognized when goods have been received and services have been rendered. The change to modified accrual accounting is for budgeting purposes and Metropolitan will continue to calculate compliance with its rate covenant, limitations on additional bonds and other financial covenants in the Revenue Bond Resolutions in accordance with their terms.

The projections are based on assumptions concerning future events and circumstances that may impact revenues and expenses and represent management’s best estimates of results at this time. See the footnotes to the table below entitled “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND

EXPENSES” for relevant assumptions, including projected water transactions and the average annual increase in the effective water rate, and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” for a discussion of potential impacts. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the projection period will vary from the projections and the variations may be material. The budget and projection information, and all other forward-looking statements in this Appendix A, are based on current expectations and are not intended as representations of facts or guarantees of future results.

The COVID-19 outbreak is a significant evolving development that is currently adversely affecting global, national, State, and local economic activity and prospects. Because of the unprecedented nature of the COVID-19 pandemic, historical data may not be an accurate predictor of future performance. Accordingly, any trends that may be suggested by historical data and budgets or projections described herein which predate the onset of the COVID-19 emergency or do not include information regarding its impact should be considered in light of a possible or probable negative impact of COVID-19. Moreover, the COVID-19 pandemic is ongoing and possible future impacts involve many developing and unknown outcomes, several of which are identified in the discussion included under “INTRODUCTION- COVID-19 Pandemic.”

As discussed under “INTRODUCTION-COVID-19 Pandemic,” Metropolitan modified certain assumptions made in its preliminary biennial budget as initially presented to the Board in February 2020 following the onset of the COVID-19 outbreak to consider certain then-anticipated effects of COVID-19, primarily potential effects on the regional economy, financial impacts to member agencies and impacts on construction schedules and timing of capital expenditures. The biennial budget for fiscal years 2020-21 and 2021-22, and water rates and charges for calendar years 2021 and 2022 as adopted by the Board on April 14, 2020, reflect these adjustments. In recognition of the changed circumstances and the ongoing uncertainties related to COVID-19 (including those referenced above), as was contemplated in connection with its approval of the biennial budget for fiscal years 2020-21 and 2021-22, Metropolitan’s Board reviewed the adopted budget and rates in September 2020 to consider further impacts resulting from the COVID-19 crisis.

As noted herein, the financial projection for fiscal year 2020-21 reflects revised projections based on results through March 2021, and the financial projections for fiscal years 2021-22 through 2025-26 reflect the biennial budget for fiscal years 2020-21 and 2021-22 and ten-year financial forecast provided therein. The financial projections include Metropolitan’s share of the forecasted costs associated with the planning of a single tunnel Bay-Delta conveyance project. See “METROPOLITAN’S WATER SUPPLY-State Water Project –Bay-Delta Proceedings Affecting State Water Project – Bay-Delta Planning Activities; Delta Conveyance” in this Appendix A.

Metropolitan’s resource planning projections are developed using a comprehensive analytical process that incorporates demographic growth projections from recognized regional planning entities, historical and projected data acquired through coordination with local agencies, and the use of generally accepted empirical and analytical methodologies. See “METROPOLITAN’S WATER SUPPLY–Integrated Water Resources Plan” in this Appendix A. Due to the variability of supplemental wholesale water transactions and unpredictability of future hydrologic conditions, projections of the volume of annual water transactions are based on projections in Metropolitan’s latest Board adopted Integrated Resources Plan, the 2015 IRP Update and recently recalibrated by Metropolitan’s Water Resource Management for the biennial budget for fiscal years 2020-21 and 2021-22 and ten-year financial forecast provided therein.

Nevertheless, Metropolitan’s assumptions have been questioned by directors representing SDCWA on Metropolitan’s Board. Metropolitan has reviewed SDCWA’s concerns and, while recognizing that assumptions may vary, believes that the estimates and assumptions that support Metropolitan’s projections are reasonable based upon history, experience and other factors as described herein.

Metropolitan's projections of the level of water transactions are the result of a comprehensive retail demand, conservation, and local supply estimation process, including supply projections from member agencies and other water providers within Metropolitan's service area. Retail demands for water are estimated with a model driven by projections of relevant demographics provided by SCAG and SANDAG. Retail demands are adjusted downward for conservation savings and local supplies, with the remainder being the estimated demand for Metropolitan supplies. Conservation savings estimates include all conservation programs in place to date as well as estimates of future conservation program goals outlined in the 2015 IRP Update. See "CONSERVATION AND WATER SHORTAGE MEASURES" in this Appendix A. Local supplies include water produced by local agencies from various sources including but not limited to groundwater, surface water, locally-owned imported supplies, recycled water, and seawater desalination (see "REGIONAL WATER RESOURCES" in this Appendix A). For additional description of Metropolitan's water transactions projections, see "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

The water transactions projections used to determine water rates and charges assume an average year hydrology. Actual water transactions are likely to vary from projections. As shown in the chart entitled "Historical Water Transactions" below, transactions can vary significantly from average and demonstrates the degree to which Metropolitan's commitments to meet supplemental demands can impact transactions. In years when actual transactions exceed projections, the revenues from water transactions during the fiscal year will exceed budget, potentially resulting in an increase in financial reserves. In years when actual transactions are less than projections, Metropolitan uses various tools to manage reductions in revenues, such as reducing expenses below budgeted levels, reducing funding of capital from revenues, and drawing on reserves. See "METROPOLITAN REVENUES–Financial Reserve Policy" in this Appendix A. Metropolitan considers actual transactions, revenues and expenses, and financial reserve balances in setting rates for future fiscal years.

Projections in the following table reflect revised projections for fiscal year 2020-21 based on results through March 2021. Financial projections for fiscal years 2021-22 through 2025-26 reflect the biennial budget for fiscal year 2020-21 and 2021-22 and ten-year financial forecast provided therein. This includes the issuance of \$675 million of bonds for fiscal years 2020-21 through 2025-26 to finance the CIP. See "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" and "CAPITAL INVESTMENT PLAN–Capital Investment Plan Financing" in this Appendix A.

Water transactions with member agencies were 1.37 million acre-feet in fiscal year 2019-20. Water transactions with member agencies are projected to be 1.54 million acre-feet for fiscal year 2020-21, 1.60 million acre-feet for fiscal years 2021-22 and 2022-23, 1.64 million acre-feet for fiscal year 2023-24, 1.69 million acre-feet for fiscal year 2024-25 and 1.74 million acre-feet for fiscal year 2025-26. Rates and charges increased by 3.0 percent on January 1, 2021 and will increase by 4.0 percent on January 1, 2022. Rates and charges are projected to increase 5.0 percent for each of calendar years 2023 and 2024, 4.0 percent for calendar year 2025, and 3.0 percent for calendar year 2026. Actual rates and charges to be effective in 2023 and thereafter are subject to adoption by Metropolitan's Board.

The projections were prepared by Metropolitan and have not been reviewed by independent certified public accountants or any entity other than Metropolitan. Dollar amounts are rounded.

HISTORICAL AND PROJECTED REVENUES AND EXPENSES^(a)
Fiscal Years Ended June 30
(Dollars in Millions)

	Actual				Projected				
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Water Revenues ^(b)	\$ 1,285	\$ 1,149	\$ 1,188	\$ 1,375	\$ 1,476	\$ 1,542	\$ 1,667	\$ 1,793	\$ 1,888
Additional Revenue Sources ^(c)	172	170	165	165	175	183	189	202	213
Total Operating Revenues	<u>1,457</u>	<u>1,319</u>	<u>1,353</u>	<u>1,540</u>	<u>1,651</u>	<u>1,725</u>	<u>1,856</u>	<u>1,995</u>	<u>2,101</u>
O&M, CRA Power and Water Transfer Costs ^(d)	(568)	(569)	(642)	(710)	(750)	(796)	(847)	(877)	(914)
Total SWC OMP&R and Power Costs ^(e)	(395)	(347)	(384)	(403)	(513)	(546)	(507)	(529)	(552)
Total Operation and Maintenance	<u>(963)</u>	<u>(916)</u>	<u>(1,026)</u>	<u>(1,113)</u>	<u>(1,263)</u>	<u>(1,342)</u>	<u>(1,354)</u>	<u>(1,406)</u>	<u>(1,466)</u>
Net Operating Revenues	\$ 494	\$ 403	\$ 327	\$ 427	\$ 388	\$ 383	\$ 502	\$ 589	\$ 635
Miscellaneous Revenue ^(f)	27	22	14	11	26	27	27	28	28
Transfer from Reserve Funds ^(g)	1	--	--	--	--	--	--	--	--
Sales of Hydroelectric Power ^(h)	24	18	16	18	22	23	14	14	15
Interest on Investments ⁽ⁱ⁾	8	34	20	10	18	18	18	19	20
Adjusted Net Operating Revenues ^(j)	<u>554</u>	<u>477</u>	<u>377</u>	<u>466</u>	<u>454</u>	<u>451</u>	<u>561</u>	<u>650</u>	<u>698</u>
Senior and Subordinate Obligations ^(k)	(340)	(333)	(272)	(279)	(298)	(306)	(323)	(320)	(326)
Funds Available from Operations	<u>\$ 214</u>	<u>\$ 144</u>	<u>\$ 105</u>	<u>\$ 187</u>	<u>\$ 156</u>	<u>\$ 145</u>	<u>\$ 238</u>	<u>\$ 330</u>	<u>\$ 372</u>
Debt Service Coverage on all Senior and Subordinate Bonds ^(l)	1.63	1.43	1.39	1.67	1.52	1.47	1.74	2.03	2.14
Funds Available from Operations	\$ 214	\$ 144	\$ 105	\$ 187	\$ 156	\$ 145	\$ 238	\$ 330	\$ 372
Other Revenues (Expenses)	(5)	(6)	(6)	(7)	(7)	(7)	(8)	(8)	(8)
Pay-As-You Go Construction	(98)	(128)	(39)	(110)	(135)	(180)	(180)	(210)	(210)
Pay-As-You Go Funded from Replacement & Refurbishment Fund Reserves	1	--	1	--	--	--	--	--	--
Total SWC Capital Costs Paid from Current Year Operations	<u>(21)</u>	<u>(4)</u>	<u>(1)</u>	<u>15</u>	<u>(10)</u>	<u>12</u>	<u>(8)</u>	<u>(24)</u>	<u>(46)</u>
Remaining Funds Available from Operations	91	6	60	84	4	(30)	42	88	108
Fixed Charge Coverage ^(m)	1.53	1.42	1.38	1.76	1.47	1.53	1.69	1.89	1.88
Property Taxes	131	145	147	153	140	140	140	140	143
General Obligation Bonds Debt Service	(20)	(14)	(13)	(7)	(8)	(2)	(2)	(2)	(2)
SWC Capital Costs Paid from Taxes	(111)	(131)	(134)	(146)	(132)	(138)	(138)	(138)	(141)
Net Funds Available from Current Year	<u>\$ 91</u>	<u>\$ 6</u>	<u>\$ 60</u>	<u>\$ 85</u>	<u>\$ 4</u>	<u>\$ (30)</u>	<u>\$ 42</u>	<u>\$ 88</u>	<u>\$ 108</u>

*Source: Metropolitan.
(Footnotes on next page)*

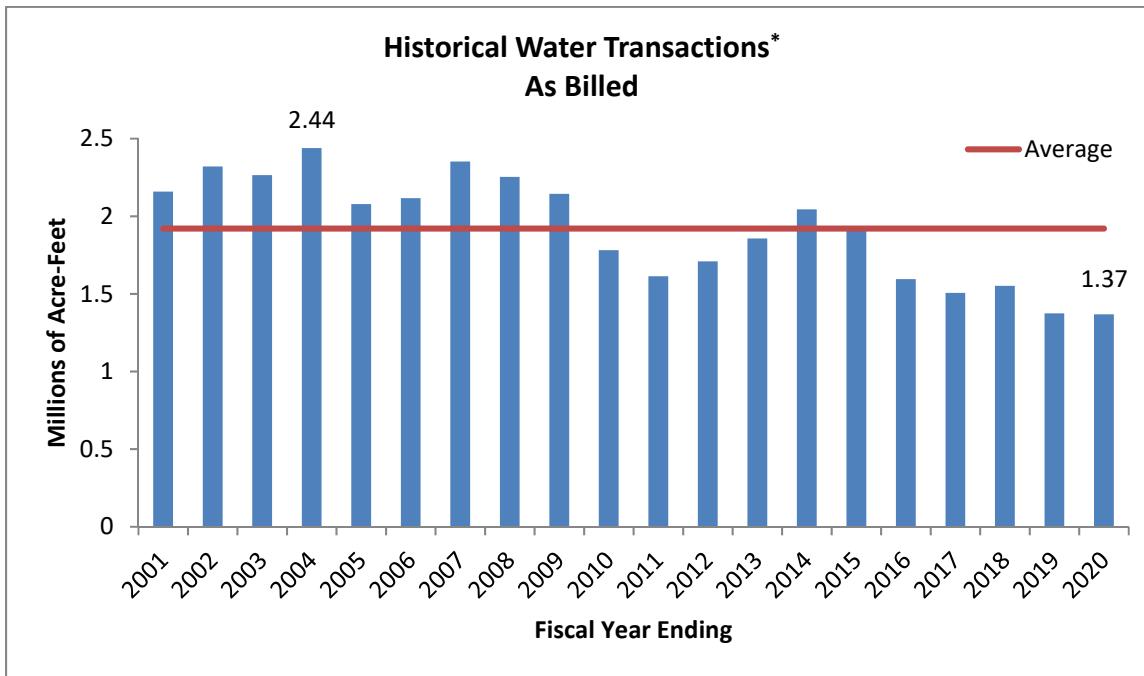
(Footnotes to table on prior page)

- (a) Unaudited. Prepared on a modified accrual basis. Projected revenues and expenses in fiscal year 2020-21 are based on results through March 2021 and revised from the projections provided in the adopted biennial budget for fiscal years 2020-21 and 2021-22. Projections for fiscal year 2021-22 through fiscal year 2025-26 are based on assumptions and estimates used in the biennial budget for fiscal years 2020-21 and 2021-22 and ten-year financial forecast provided therein, and reflect the projected issuance of additional bonds. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A.
- (b) Water Revenues include revenues from water sales, exchanges, and wheeling. During the fiscal years ended June 30, 2018 through June 30, 2020, annual water transactions with member agencies (in acre-feet) were 1.55 million, 1.37 million, and 1.37 million, respectively. See the table entitled “Summary of Water Transactions and Revenues” under “METROPOLITAN REVENUES–Water Revenues” in this Appendix A. The water transactions projections (in acre-feet) are 1.54 million acre-feet for fiscal year 2020-21, 1.60 million acre-feet for fiscal years 2021-22 and 2022-23, 1.64 million acre-feet for fiscal year 2023-24, 1.69 million acre-feet for fiscal year 2024-25 and 1.74 million acre-feet for fiscal year 2025-26. Projections reflect adopted overall rate and charge increases of 3.0 percent effective on January 1, 2021 and 4.0 percent effective on January 1, 2022. Rates and charges are projected to increase 5.0 percent for each of the calendar years 2023 and 2024, 4.0 percent for calendar year 2025 and 3.0 percent for calendar year 2026, subject to adoption by Metropolitan’s Board. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A.
- (c) Includes revenues from water standby, readiness-to-serve, and capacity charges. The term Operating Revenues excludes *ad valorem* taxes. See “METROPOLITAN REVENUES–Other Charges” in this Appendix A.
- (d) Water Transfer Costs and Regional Recycled Water Program planning costs (described under “REGIONAL WATER RESOURCES–Local Water Supplies – Recycled Water-Metropolitan Regional Recycled Water Program”) are included in operation and maintenance expenses for purposes of calculating the debt service coverage on all Obligations.
- (e) Includes on- and off-aqueduct power and operation, maintenance, power and replacement costs payable under the State Water Contract and Bay-Delta conveyance planning costs. See “METROPOLITAN EXPENSES–State Water Contract Obligations” in this Appendix A. See also “METROPOLITAN’S WATER SUPPLY–State Water Project –Bay-Delta Proceedings Affecting State Water Project – Bay-Delta Planning Activities; Delta Conveyance” in this Appendix A.
- (f) May include lease and rental net proceeds, net proceeds from sale of surplus property, reimbursements, and historically, federal interest subsidy payments for Build America Bonds.
- (g) Reflects transfers from the Water Management Fund of \$1 million in fiscal year 2017-18 to fund a like amount of costs for conservation and supply programs. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A.
- (h) Includes CRA power sales.
- (i) Does not include interest applicable to Bond Construction Funds, the Excess Earnings Funds, other trust funds and the Deferred Compensation Trust Fund. Includes net gain or loss on investments.
- (j) Adjusted Net Operating Revenues is the sum of all available revenues that the revenue bond resolutions specify may be considered by Metropolitan in setting rates and issuing additional Senior Revenue Bonds and Senior Parity Obligations and Subordinate Revenue Bonds and Subordinate Parity Obligations.
- (k) Includes debt service on outstanding Senior Revenue Bonds, Senior Parity Obligations, Subordinate Revenue Bonds, Subordinate Parity Obligations, and additional Revenue Bonds (projected). Assumes issuance of approximately \$255 million in additional Revenue Bonds in fiscal year 2020-21, approximately \$120 million in each of fiscal years 2022-23 and 2023-24, and approximately \$90 million in each of fiscal years 2024-25 and 2025-26. Fiscal year 2017-18 debt service increased by \$15.3 million for debt service prepaid through bond refunding transactions in June 2018, rather than on July 1, 2018 and fiscal year 2018-19 debt service is therefore reduced by \$15.3 million. Fiscal year 2018-19 debt service increased by \$28.5 million for debt service prepaid in June 2019, rather than on July 1, 2019 and fiscal year 2019-20 debt service is therefore reduced by \$28.5 million. See “CAPITAL INVESTMENT PLAN–Capital Investment Plan Financing” in this Appendix A.
- (l) Adjusted Net Operating Revenues, divided by the sum of debt service on outstanding Senior Revenue Bonds, Senior Parity Obligations, Subordinate Revenue Bonds and Subordinate Parity Obligations and additional Revenue Bonds (projected). See “METROPOLITAN EXPENSES–Outstanding Senior Revenue Bonds and Senior Parity Obligations” and “Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations” in this Appendix A.
- (m) Adjusted Net Operating Revenues, divided by the sum of State Water Contract capital costs paid from current year operations and debt service on outstanding Senior Revenue Bonds, Senior Parity Obligations, Subordinate Revenue Bonds and Subordinate Parity Obligations, and additional Revenue Bonds (projected).

MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES

Water Transactions Projections

The water transactions with member agencies in the table above for fiscal year 2019-20 were 1.37 million acre-feet. The water transactions forecast is 1.54 million acre-feet for fiscal year 2020-21 (reflecting the revised projections based on results through March 2021), and 1.60 million acre-feet for fiscal years 2021-22 and 2022-23, 1.64 million acre-feet for fiscal year 2023-24, 1.69 million acre-feet for fiscal year 2024-25, and 1.74 million acre-feet for fiscal year 2025-26 consistent with the biennial budget and ten-year financial forecast. For purposes of comparison, Metropolitan’s highest level of water transactions during the past 20 fiscal years was approximately 2.44 million acre-feet in fiscal year 2003-04 and the lowest was 1.37 million acre-feet in fiscal year 2019-20. The chart below shows the volume of water transactions with member agencies over the last 20 fiscal years.



^{*}Water transactions include sales, exchanges, and wheeling with member agencies.

Water Revenues

Metropolitan relies on revenues from water transactions for about 75 percent of its total revenues. In adopting the budget and rates and charges for each fiscal year, Metropolitan's Board reviews the anticipated revenue requirements and projected water transactions to determine the rates necessary to produce the required revenues to be derived from water transactions during the fiscal year. Metropolitan sets rates and charges estimated to provide operating revenues sufficient, with other sources of funds, to provide for payment of its expenses. See "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

Metropolitan's Board has adopted annual increases in water rates each year beginning with the rates effective January 1, 2004. See "METROPOLITAN REVENUES—Rate Structure" and "—Classes of Water Service" in this Appendix A. On April 14, 2020, the Board adopted average increases in rate and charges of 3.0 percent, to become effective on January 1, 2021, and 4.0 percent, to become effective on January 1, 2022. Rates and charges are projected to increase 5.0 percent for each of calendar years 2023 and 2024, 4.0 percent for calendar year 2025, and 3.0 percent for calendar year 2026. Actual rates and charges to be effective in 2023 and thereafter are subject to adoption by Metropolitan's Board.

Projected Fiscal Year 2020-21 Results

Projections for fiscal year 2020-21, in the table above, are revised from the projections adopted in the fiscal year 2020-21 and 2021-22 biennial budget and based on results through March 2021. Financial projections for fiscal years 2021-22 through 2025-26 are reflected in the fiscal year 2020-21 and 2021-22 biennial budget and ten-year financial forecast provided therein. The fiscal year 2020-21 and 2021-22 biennial budget and rates set the stage for predictable and reasonable rate increases over the ten-year planning period, with Board adopted overall rate increases of 3.0 percent for calendar year 2021 and 4.0 percent for calendar year 2022. The fiscal year 2020-21 and 2021-22 biennial budget and ten-year financial forecast includes rate increases of 5.0 percent for each of calendar years 2023 and 2024, 4.0 percent for calendar year 2025, and 3.0 percent for calendar year 2026. Actual rates and charges to be effective in 2023 and thereafter are subject to adoption by Metropolitan's Board as part of the biennial budget process, at which point the ten-year forecast will be updated as well. Increases in rates and charges reflect the impact of

reduced water transactions projections, increasing operations and maintenance costs, and increasing State Water Project costs, when compared to prior fiscal years.

Operation and maintenance expenses in fiscal year 2020-21 are projected to be \$1,113 million, which represents approximately 67.7 percent of total costs. These expenses include the costs of labor, electrical power, materials and supplies of both Metropolitan and its contractual share of the State Water Project. Metropolitan's operation and maintenance expenses are projected to be \$117 million under budget in fiscal year 2020-21. Comparatively, operations and maintenance expenses in fiscal year 2019-20 were \$1,026 million, which represents approximately 69.0 percent of total costs. Overall, projected expenses for the twelve months ending June 30, 2021 are \$1.6 billion. This is \$134 million, or 7.5 percent, less than budgeted expenses.

Fiscal year 2020-21 revenue bond debt service coverage is projected to be 1.67x and fixed charge coverage to be 1.76x. Fiscal year 2020-21 capital expenditures, currently estimated at \$286.8 million, will be partially funded by the proceeds of bonds issued for Fiscal Year 2020-21 for such purpose and the remainder from pay-as-you-go funding. Metropolitan's unrestricted reserves are projected to be approximately \$510 million at June 30, 2021. See "METROPOLITAN REVENUES—Financial Reserve Policy" in this Appendix A. This amount does not include funds held in the Exchange Agreement Set-Aside Fund.

As discussed under "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" and noted above, projections for fiscal year 2020-21 are based on results through March 2021. Metropolitan's biennial budget for fiscal years 2020-21 and 2021-22, adopted by the Board on April 14, 2020, and the financial projections for fiscal years 2020-21 through 2025-26 included in the ten-year financial forecast provided therein, reflect adjustments made to the underlying assumptions to consider certain then-identified potential effects of the COVID-19 outbreak. Metropolitan is continuing to monitor the pandemic but is not able to fully predict the effect it will have on Metropolitan's financial performance or operations. Metropolitan's financial results during the fiscal years 2020-21 through 2025-26 projection period may be impacted by subsequent developments relating to the COVID-19 pandemic and its consequences. Metropolitan's Board action on April 14, 2020 to adopt the biennial budget for fiscal years 2020-21 and 2021-22, and water rates and charges for calendar years 2021 and 2022, included a review of the adopted budget and rates in September 2020 to consider further impacts resulting from the COVID-19 crisis. In September 2020, the Board determined to maintain the previously adopted rates and charges for calendar years 2021 and 2022. Among other things, at that time, the Board took certain other actions, including approving cost containment measures for fiscal years 2020-21 and 2021-22, and directing staff to develop a payment deferral program for member agencies that record and report significant customer payment delinquencies and likewise grant deferrals to their customers; evaluate potential new revenue-generating programs; and place a moratorium on on-emergency unbudgeted spending.

See also the "Management's Discussion and Analysis" contained in APPENDIX B—"THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITORS' REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019 AND BASIC FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2021 AND 2020 (UNAUDITED)."

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APPENDIX B

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT
AUDITORS' REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED
JUNE 30, 2020 AND JUNE 30, 2019 AND BASIC FINANCIAL STATEMENTS FOR THE
NINE MONTHS ENDED MARCH 31, 2021 AND 2020 (UNAUDITED)**

The financial and statistical information contained in this Appendix B is included herein for informational purposes only. The Basic Financial Statements for the nine months ended March 31, 2021 and 2020 (Unaudited) remain subject to amendment and revision. The source for the information herein is Metropolitan unless otherwise stated.

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Financial Statements and Supplemental Schedules

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report

The Board of Directors
Metropolitan Water District of Southern California:

We have audited the accompanying financial statements of the Metropolitan Water District of Southern California (Metropolitan), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Metropolitan's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3-19 and the pension and other postemployment benefits supplementary information on pages 98-101 be presented to supplement the basic financial statements. Such information, although not a part of the basic



financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Los Angeles, California
October 12, 2020

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
June 30, 2020 and 2019

The following discussion and analysis of The Metropolitan Water District of Southern California's (Metropolitan) financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2020 and 2019. This discussion and analysis should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

Metropolitan operates as a utility enterprise and maintains its accounting records in accordance with United States generally accepted accounting principles (U.S. GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The statements of net position include all of Metropolitan's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position, some of which is restricted in accordance with bond covenants or other commitments. The statements of revenues, expenses and changes in net position report all of Metropolitan's revenues and expenses during the periods indicated. The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from taxes and investment income, and cash used for construction projects, State Water Project (SWP) costs and principal and interest payments on borrowed money. Certain amounts reported in fiscal year 2019 have been reclassified to conform to the fiscal year 2020 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2018, Metropolitan implemented GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses the accounting and financial reporting for postemployment benefits other than pensions (OPEB). As of July 1, 2017, Metropolitan restated the beginning net position in the amount of \$138.9 million to record the beginning deferred OPEB contributions and net OPEB liability.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
(CONTINUED)
June 30, 2020 and 2019

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

	June 30,		
	2020	2019	2018
(Dollars in millions)			
Assets and deferred outflows of resources			
Capital assets, net	\$ 10,508.4	\$ 10,393.5	\$ 10,410.0
Other assets	<u>1,992.3</u>	1,845.0	1,818.2
Total assets	12,500.7	12,238.5	12,228.2
Deferred outflows of resources	169.1	182.1	239.6
Total assets and deferred outflows of resources	12,669.8	12,420.6	12,467.8
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	4,369.9	4,865.4	5,235.0
Other liabilities	<u>1,291.8</u>	686.9	502.9
Total liabilities	5,661.7	5,552.3	5,737.9
Deferred inflows of resources	68.6	32.1	43.4
Total liabilities and deferred inflows of resources	5,730.3	5,584.4	5,781.3
Net position			
Net investment in capital assets, including State Water Project costs	6,121.6	6,131.6	5,968.8
Restricted	473.1	418.6	407.6
Unrestricted	<u>344.8</u>	286.0	310.1
Total net position	\$ 6,939.5	\$ 6,836.2	\$ 6,686.5

Capital Assets, Net

Net capital assets include plant, participation rights, and construction work in progress, net of accumulated depreciation and amortization.

Fiscal Year 2020 Compared to 2019. At June 30, 2020, net capital assets totaled \$10.5 billion, or 82.9 percent of total assets and deferred outflows of resources, and were \$114.9 million higher than the prior year. The increase included Metropolitan's continued expenditures on the capital investment plan of \$339.3 million (including \$9.8 million of capitalized interest) and a net increase of \$144.4 million in participation rights in SWP, offset by depreciation and amortization of \$349.1 million and \$19.7 million retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred. See the capital assets section on pages 14-15 for additional information.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, net capital assets totaled \$10.4 billion, or 83.7 percent of total assets and deferred outflows of resources, and were \$16.5 million lower than the prior year. This decrease included depreciation and amortization of \$352.1 million and \$32.3 million retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred, offset by Metropolitan's continued expenditures on the capital investment plan of \$227.7 million (including \$4.7 million of capitalized interest) and net capital payments for participation rights in SWP and other facilities of \$140.2 million. See the capital assets section on pages 14-15 for additional information.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
(CONTINUED)
June 30, 2020 and 2019

Other Assets

Other assets include accounts receivable, inventories, prepaid costs, and cash and investments.

Fiscal Year 2020 Compared to 2019. At June 30, 2020, other assets totaled \$2.0 billion and were \$147.3 million higher than the prior year. Cash and investments were \$66.0 million higher due to a \$35.6 million draw on the Royal Bank of Canada Short-Term Credit Facility (RBC note) for the purpose of refunding a portion of the outstanding principal on the Subordinate Water Revenue Refunding Bonds 2017 Series B in July 2020 and a \$34.0 million refund of the California WaterFix (CWF) advance funding from the California Department of Water Resources (DWR). Receivables also increased \$60.1 million of which, \$53.1 million related to higher water revenues receivable as fiscal year 2020 May and June water transactions were 49.9 thousand acre feet (TAF) more than the prior year's comparable months. Deposits, prepaid costs, and other was \$25.8 million higher than prior year. The increase included \$38.4 million more prepaid water costs due to \$17.4 million or 151.3 TAF more in various storage programs and \$13.3 million for the High Desert Bank Program that started in fiscal year 2020. In addition, prepaid expenses were \$13.2 million higher. These were partially offset by the \$34.0 million refund from DWR for the CWF advance funding.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, other assets totaled \$1.8 billion and were \$26.8 million higher than the prior year. Deposits, prepaid costs, and other was \$62.6 million higher primarily due to \$41.5 million of prepaid costs related to the CWF advance funding agreement with DWR and an \$11.2 million increase in Palos Verde Irrigation District (PVID) land fallowing cost. Inventory was \$25.3 million higher due to an increase in water storage of 89.9 TAF. These increases were primarily offset by \$55.7 million lower receivables of which, \$51.2 million related to lower water revenues receivable as fiscal year 2019 May and June water transactions were 71.6 TAF less than the prior year's comparable months.

Deferred Outflows of Resources

Deferred outflows of resources include deferred outflows related to loss on bond refundings and swap terminations, deferred outflows related to the net pension liability and net OPEB liability, and deferred outflows for effective interest rate swaps.

Fiscal Year 2020 Compared to 2019. At June 30, 2020, deferred outflows totaled \$169.1 million and were \$13.0 million lower than the prior year. The decrease was primarily due to \$21.7 million lower deferred outflows related to pension, which included \$39.3 million lower deferred outflows due to changes of actuarial assumption and \$3.3 million lower deferred outflows related to the net difference between projected and actual earnings on pension plan investments, offset by \$11.3 million higher difference between actual and expected experience and \$9.6 million higher deferred outflows related to pension contributions subsequent to the measurement date. In addition, deferred loss on bond refundings was \$5.0 million lower due to scheduled amortization. These decreases were offset by \$11.7 million higher deferred outflows on effective swaps due to lower interest rates.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, deferred outflows totaled \$182.1 million and were \$57.5 million lower than the prior year. The decrease was primarily due to \$31.5 million lower deferred outflows related to pension, which included \$39.3 million lower deferred outflows due to changes of actuarial assumption and \$16.4 million lower deferred outflows related to the net difference between projected and actual earnings on pension plan investments, offset by \$25.1 million higher deferred outflows related to pension contributions subsequent to the measurement date. In addition, deferred loss on bond refundings was \$14.4 million lower due to \$8.7 million of

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refunding transactions and \$5.7 million of scheduled amortization and deferred outflows related to loss on swap terminations was \$8.9 million lower due to \$6.1 million of refunding transactions and \$2.8 million of scheduled amortization.

Long-term Liabilities, Net of Current Portion

Long-term liabilities, net of current portion includes long-term debt, long-term revolving notes, customer deposits and trust funds, net pension liability, net OPEB liability, accrued compensated absences, workers' compensation and third party claims, fair value of interest rate swaps, and other long-term obligations.

Fiscal Year 2020 Compared to 2019. At June 30, 2020, long-term liabilities, net of current portion totaled \$4.4 billion and were \$495.5 million lower than the prior year primarily due to a decrease of \$487.2 million in long-term debt, net of current portion. The decrease included \$571.0 million higher current portion of long-term debt as compared to prior year, \$141.5 million principal payments and \$41.0 million of bond refundings, as the new debt issued was less than the amount of debt refunded, offset by \$207.3 million in new revenue bonds and \$59.0 million increase in premiums and discounts. See other liabilities section below and long-term debt section on page 16 for additional information. In addition, net OPEB liability was \$60.3 million lower primarily due to \$50.1 million difference between expected and actual experience, \$32.1 million of employer contributions to the OPEB plan and \$16.2 million of OPEB plan investment earnings, offset by \$31.6 million of interest on the total OPEB liability and \$10.6 million of service costs. These decreases in long-term liabilities, net of current portion were offset by \$35.0 million higher net pension liability primarily due to \$168.1 million interest on the total pension liability and \$35.7 million in service costs, offset by \$114.2 million of pension plan investment earnings and \$56.5 million employer contributions to the pension plan. Furthermore, fair value of interest rate swaps increased \$12.3 million due to lower interest rates as compared to prior year.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, long-term liabilities, net of current portion, totaled \$4.9 billion and were \$369.6 million lower than the prior year. The decrease in long-term debt, net of current portion of \$389.0 million included \$171.2 million of bond refundings, as the new debt issued was less than the amount of debt refunded, \$142.0 million principal payments and \$170.6 million more current portion of long-term debt as compared to prior year. See other liabilities section below and long-term debt section on page 16 for additional information. In addition, net pension liability was \$26.9 million lower primarily due \$139.0 million of pension plan investment earnings and employer contributions to the pension plan of \$48.8 million, offset by \$161.0 million interest on the total pension liability. Net OPEB liability was also \$12.2 million lower primarily due to \$34.7 million of employer contributions to the OPEB plan and \$18.5 million of OPEB plan investment earnings, offset by \$30.3 million of interest on the total OPEB liability and \$10.3 million of service costs. These decreases in long-term liabilities were offset by the \$46.8 million Bank of America, N.A. notes (BANA notes) issued for the CWF advance funding and \$11.9 million higher fair value of interest rate swaps due to lower interest rates as compared to prior year.

Other Liabilities

Other liabilities represent current liabilities that are due within one year. Current liabilities include accounts payable, accrued liabilities, short-term revolving notes, and the current portion of long-term liabilities.

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Fiscal Year 2020 Compared to 2019. At June 30, 2020, other liabilities totaled \$1.3 billion and were \$604.9 million higher than the prior year. Current portion of long-term debt increased by \$571.0 million due to the addition of \$271.8 million Special Variable Rate Water Revenue Refunding Bonds (SVRWRRB), 2020 Series B with a mandatory tender date of April 2021, \$191.2 million Subordinate Water Revenue Refunding Bonds, 2017 Series D and E with a mandatory tender date of June 2021, \$175.0 million Subordinate Water Revenue Bonds, 2016 Series A with a mandatory tender date of December 2020, \$90.1 million SVRWRRB, 2018 Series A-1 and A-2 with a Standby Bond Purchase Agreement (SBPA) expiring in June 2021 and \$80.0 million Subordinate Water Revenue Bonds, 2017 Series C with a mandatory tender date of June 2021. The increase in current portion of long-term debt was offset by the classification of \$158.9 million back to long-term debt due to the extension of the SBPA that supports the Water Revenue Bonds, 2017 Series A and 2000 Series B-3 to March 2023. In addition, Metropolitan took a \$35.6 million draw from the RBC note for the purpose of refunding subordinate lien debt in July 2020. These increases in other liabilities were offset by \$22.9 million lower accounts payable and accrued expenses as the SWP variable costs were \$24.0 million less due to lower allocation.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, other liabilities totaled \$686.9 million, and were \$184.0 million higher than the prior year primarily due to \$170.6 million more current portion of long-term debt as the outstanding Water Revenue Bonds 2000 Series B-3 and 2017 Series A in the amount of \$88.8 million and \$80.0 million, respectively, were supported by a SBPA that expired in March 2020.

Deferred Inflows of Resources

Deferred inflows of resources represent deferred inflows related to the net pension liability, net OPEB liability and deferred inflows for effective interest rate swaps.

Fiscal Year 2020 Compared to 2019. At June 30, 2020, deferred inflows of resources totaled \$68.6 million and were \$36.5 million higher than the prior year primarily due to a \$40.0 million increase in deferred inflows related to OPEB which included \$40.3 million higher differences between expected and actual experience. This increase was partially offset by \$2.9 million lower deferred inflows related to pension which included \$8.9 million lower difference between expected and actual experience and \$4.8 million lower changes of assumptions offset by \$10.8 million higher net difference between projected and actual earnings on pension plan investments.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, deferred inflows of resources totaled \$32.1 million and were \$11.3 million lower than the prior year primarily due to an \$18.0 million decrease in effective swaps due to lower interest rates, offset by \$6.4 million higher deferred inflows related to pension which included \$8.4 million higher changes of assumptions and \$2.0 million lower difference between expected and actual experience.

Net Investment in Capital Assets, including State Water Project Costs

Net investment in capital assets, including State Water Project costs, include amounts expended for capital improvements and SWP, offset by accumulated depreciation and outstanding debt issued for these purposes.

Fiscal Year 2020 Compared to 2019. At June 30, 2020, net investment in capital assets, including State Water Project costs totaled \$6.1 billion and was \$10.0 million lower than the prior year. This decrease included \$124.9 million increase in outstanding debt and related deferred outflows of resources, offset by \$114.9 million net increase in capital assets. See discussions of these items in the capital assets and long-term debt sections on pages 14-15 and 16, respectively.

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Fiscal Year 2019 Compared to 2018. At June 30, 2019, net investment in capital assets, including State Water Project costs totaled \$6.1 billion and was \$162.8 million higher than the prior year. This increase included \$179.3 million decrease in outstanding debt and related deferred outflows of resources offset by \$16.5 million net decrease in capital assets. See discussions of these items in the capital assets and long-term debt sections on pages 14-15 and 16, respectively.

Restricted Net Position

Restricted net position includes amounts restricted for debt service payments and operating expenses, both of which are required by bond covenants.

Fiscal Year 2020 Compared to 2019. At June 30, 2020, restricted net position totaled \$473.1 million which was \$54.5 million higher than fiscal year 2019 primarily due to \$38.4 million increase in restricted for operating expenses as labor and benefit costs are estimated to be higher in fiscal year 2021 due to negotiated labor increases, higher pension contribution requirement and increase in benefit premiums, offset by \$15.8 million of lower restricted for debt service due to savings from refunding transactions.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, restricted net position totaled \$418.6 million which was \$11.0 million higher than fiscal year 2018 primarily due to \$32.2 million increase in restricted for operating expenses as the SWP operations, maintenance, power and replacement (OMP&R) costs are estimated to be higher in fiscal year 2020, offset by \$20.6 million of lower restricted for debt service.

Unrestricted Net Position

Unrestricted net position consists of net position items that do not meet the definition of “restricted” or “net investment in capital assets, including State Water Project costs.” Certain unrestricted net position items have been designated for purposes authorized by the Board.

Fiscal Year 2020 Compared to 2019. Unrestricted net position of \$344.8 million increased \$58.8 million from the prior year, which included fiscal year 2020 changes in net position of \$103.3 million and \$10.0 million lower net investment in capital assets, including State Water Project costs offset by \$54.5 million higher restricted for debt service and operating expenses.

Fiscal Year 2019 Compared to 2018. Unrestricted net position of \$286.0 million decreased \$24.1 million from the prior year, which included \$162.8 million of higher net investment in capital assets, including State Water Project costs and \$11.0 million higher restricted for debt service and operating expenses partially offset by the fiscal year 2019 changes in net position of \$149.7 million.

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CHANGES IN NET POSITION

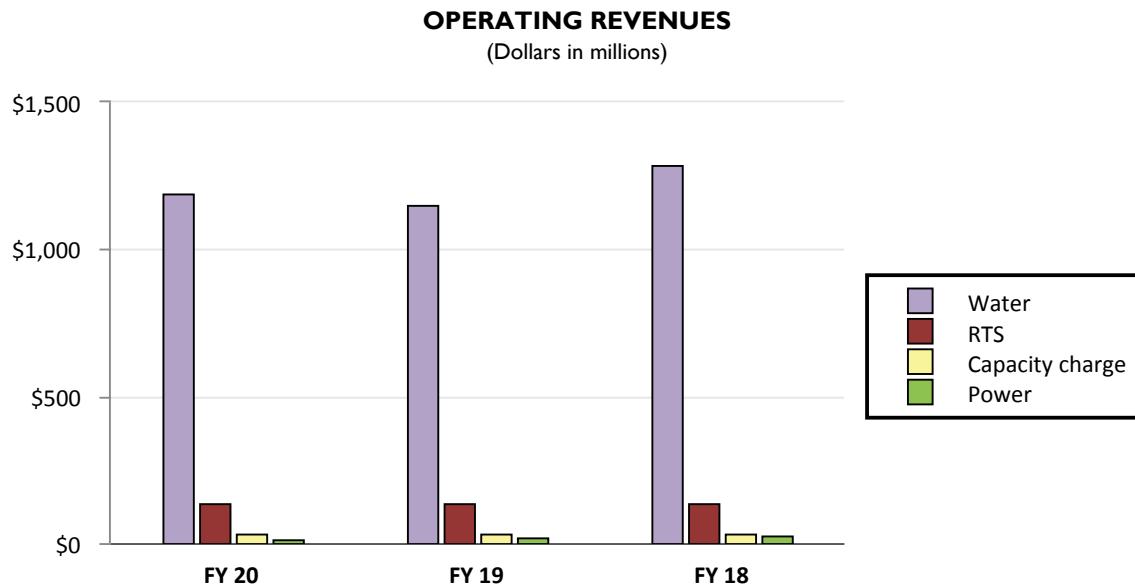
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

(Dollars in millions)	Fiscal Year Ended June 30,		
	2020	2019	2018
Water revenues	\$ 1,188.0	\$ 1,148.7	\$ 1,285.2
Readiness-to-serve charges	134.5	136.5	137.5
Capacity charge	30.5	33.0	34.6
Power sales	15.9	18.3	23.7
Operating revenues	1,368.9	1,336.5	1,481.0
Taxes, net	146.9	142.7	127.3
Investment income, net	28.9	36.0	10.6
Other	24.5	10.4	12.9
Nonoperating revenues	200.3	189.1	150.8
Total revenues	1,569.2	1,525.6	1,631.8
Power and water costs	(438.7)	(375.8)	(446.5)
Operations and maintenance	(557.4)	(493.9)	(507.4)
Depreciation and amortization	(353.0)	(361.1)	(330.3)
Operating expenses	(1,349.1)	(1,230.8)	(1,284.2)
Bond interest, net of amount capitalized	(100.7)	(126.9)	(124.5)
Loss on disposal of plant assets	(10.2)	(13.7)	(88.7)
Other	(5.9)	(5.3)	(68.2)
Nonoperating expenses	(116.8)	(145.9)	(281.4)
Total expenses	(1,465.9)	(1,376.7)	(1,565.6)
Changes in net position before contributions	103.3	148.9	66.2
Capital contributions	—	0.8	1.5
Changes in net position	103.3	149.7	67.7
Net Position			
Beginning of year, as previously reported	6,836.2	6,686.5	6,757.7
Cumulative effect of change in accounting principle	—	—	(138.9)
Beginning of year, as restated	6,836.2	6,686.5	6,618.8
Net position, end of year	\$ 6,939.5	\$ 6,836.2	\$ 6,686.5

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
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Operating Revenues

Metropolitan's principal source of revenue is derived from the sale and availability of water, including water rates and other exchange and wheeling transactions, which typically account for approximately 85 percent of operating revenues. Metropolitan's primary sources of water supply are the Colorado River and the SWP.



Analytical Review of Operating Revenues

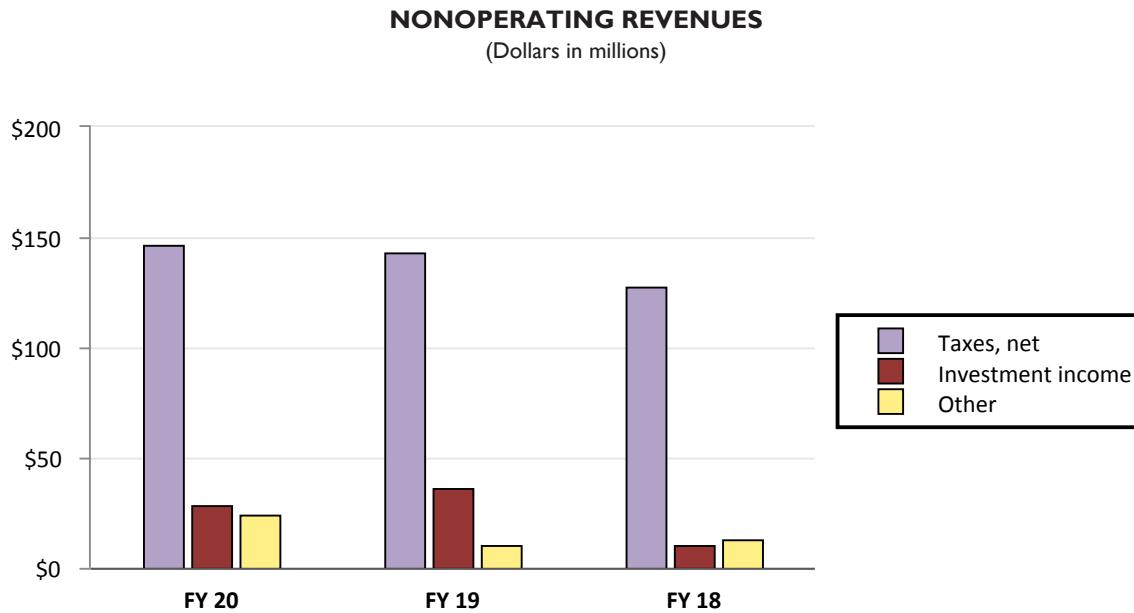
Fiscal Year 2020 Compared to 2019. Fiscal year 2020 operating revenues were \$1.4 billion or \$32.4 million more than the prior year. The increase was primarily due to \$39.3 million of higher water revenues, which included \$38.6 million of higher price and \$0.7 million or 0.9 TAF of higher volumes sold.

Fiscal Year 2019 Compared to 2018. Fiscal year 2019 operating revenues were \$1.3 billion or \$144.5 million less than the prior year. The decrease was primarily due to \$136.5 million of lower water revenues, which included \$153.5 million or 192.7 TAF of lower volumes sold offset by \$17.0 million of higher price.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
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(CONTINUED)
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Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.



Analytical Review of Nonoperating Revenues

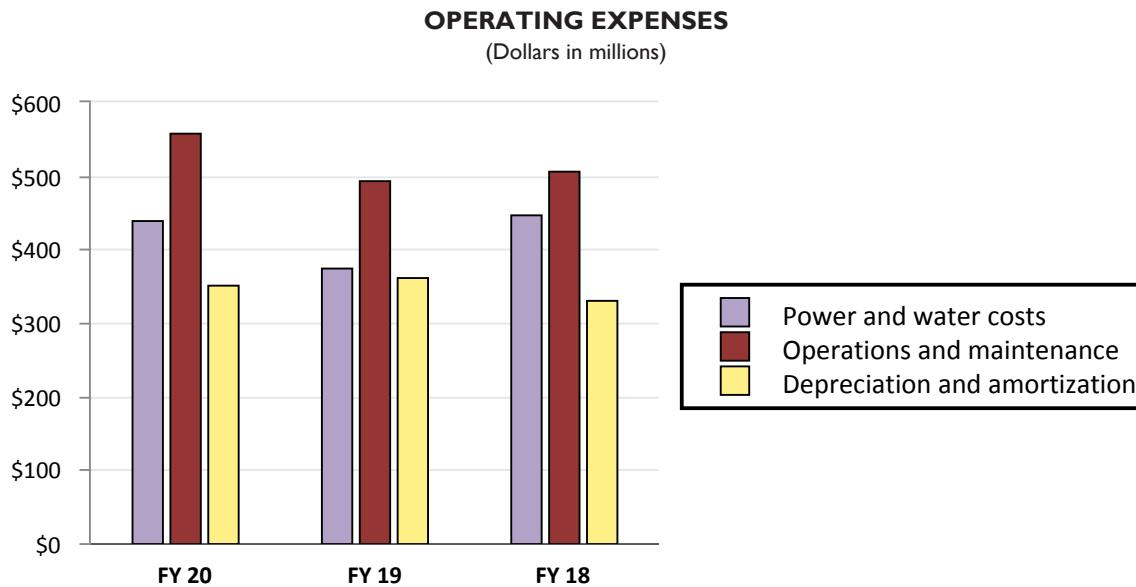
Fiscal Year 2020 Compared to 2019. Nonoperating revenues for fiscal year 2020 totaled \$200.3 million and were \$11.2 million higher than the prior year. The increase was primarily due to \$14.1 million higher other revenues which included a \$13.4 million adjustment due to an overstatement of depreciation expense in a prior year. In addition, property tax revenue was \$4.2 million higher due to lower delinquencies and higher assessed property values. These increases were offset by \$7.1 million less of investment income primarily due to \$5.1 million lower rate of return.

Fiscal Year 2019 Compared to 2018. Nonoperating revenues for fiscal year 2019 totaled \$189.1 million and were \$38.3 million higher than the prior year. The increase was primarily due to \$25.4 million more of investment income, which included a \$14.8 million favorable change in fair value of investments and \$7.3 million higher rate of return. In addition, property tax revenue increased \$15.4 million due to lower delinquencies and higher assessments resulting from increased property values.

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Operating Expenses

Operating expenses fall into three primary cost areas: power and water, operations and maintenance (O&M), and depreciation and amortization.



Analytical Review of Operating Expenses

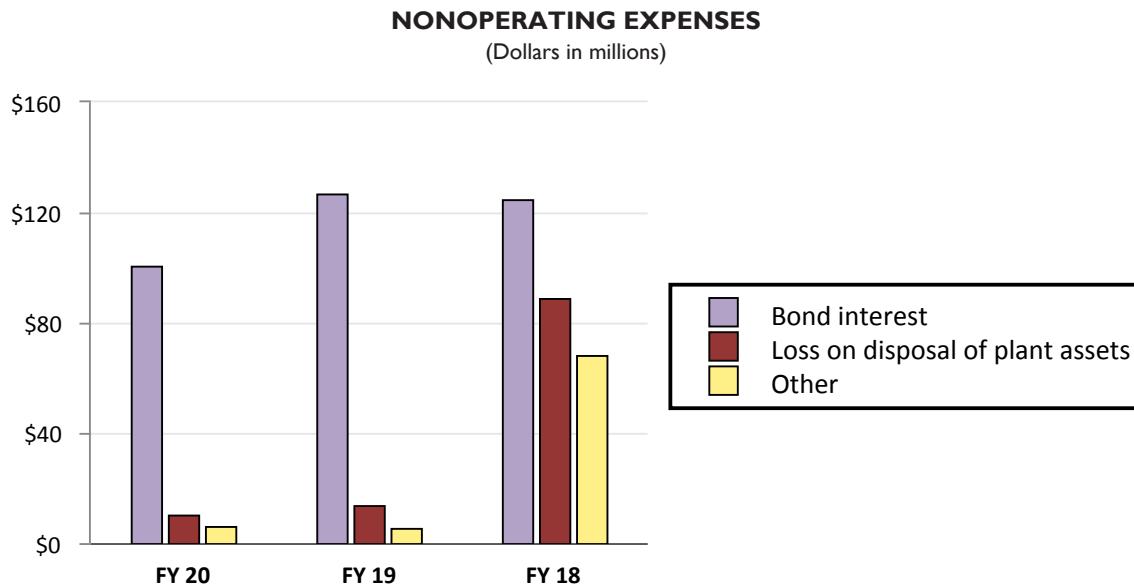
Fiscal Year 2020 Compared to 2019. Fiscal year 2020 operating expenses of \$1.3 billion were \$118.3 million higher than the prior year. The increase included \$63.5 million higher O&M costs primarily due to \$32.6 million higher labor and benefit costs resulting from negotiations with bargaining units and \$32.5 million higher pension expense primarily due to the differences between projected and actual earnings on pension plan investments were higher than prior year. In addition, power and water costs were \$62.9 million higher due to an increase in the unit cost of water from prior year. These increases were offset by \$8.1 million of lower depreciation and amortization due to the recalculation of depreciation expense related to capitalized interest.

Fiscal Year 2019 Compared to 2018. Fiscal year 2019 operating expenses of \$1.2 billion were \$53.4 million lower than the prior year. The decrease was primarily due to \$70.7 million lower power and water costs, which included \$48.5 million cost reduction due to 192.7 TAF less water sold and \$35.2 million lower SWP minimum OMP&R costs related to an over collection of prior year's charges. The decrease was offset by \$30.8 million of higher depreciation and amortization due to a net increase in depreciable capital assets of \$320.5 million.

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Nonoperating Expenses

The primary sources of nonoperating expenses are interest expense on bonds, loss on disposal of plant assets and other, net.



Analytical Review of Nonoperating Expenses

Fiscal Year 2020 Compared to 2019. Fiscal year 2020 nonoperating expenses of \$116.8 million were \$29.1 million lower than the prior year primarily due to \$26.2 million lower bond interest, net of amount capitalized, as a result of bond refunding transactions to take advantage of lower interest rates.

Fiscal Year 2019 Compared to 2018. Fiscal year 2019 nonoperating expenses of \$145.9 million were \$135.5 million lower than the prior year. The decrease was primarily due to \$75.0 million less loss on disposal of plant assets related to the write-off of Skinner Modules 4, 5 and 6 in the prior year. In addition, other expenses decreased \$62.9 million due to \$39.1 million less write-off of construction in progress programs and \$24.0 million less recalculation of previously capitalized interest on construction in the prior year.

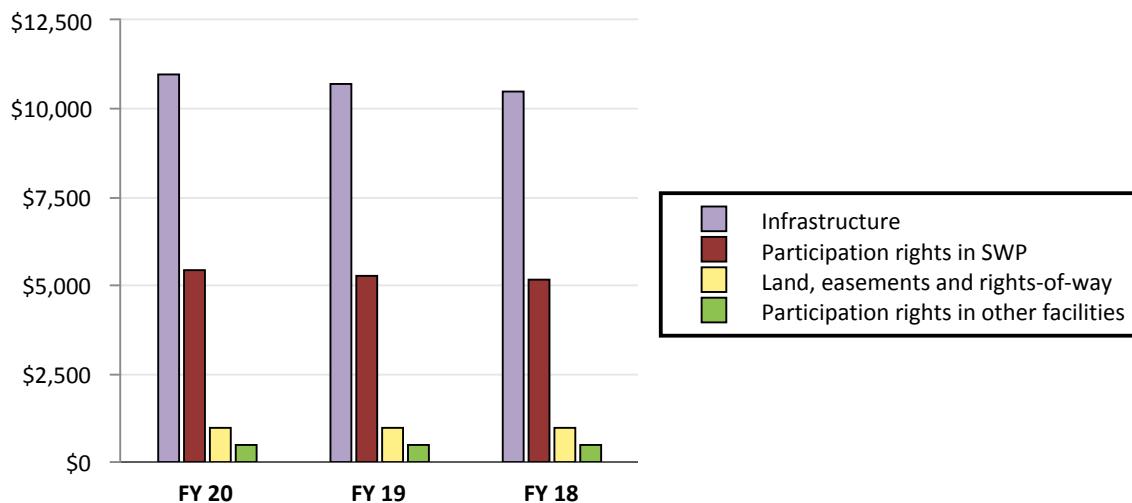
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
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CAPITAL ASSETS

Capital assets include Metropolitan's water infrastructure, land and buildings, as well as participation rights in SWP and various other water programs. More detailed information on capital assets and commitments for construction contracts are presented in Note 2 and Note 9(f) to the basic financial statements, respectively.

GROSS CAPITAL ASSETS

(Dollars in millions)



Schedule of Capital Assets

(Dollars in millions)	June 30,		
	2020	2019	2018
Land, easements and rights of way	\$ 984.8	\$ 984.8	\$ 994.8
Construction in progress	636.2	545.8	691.8
Parker power plant and dam	13.0	13.0	13.0
Power recovery plants	220.2	210.6	216.2
Other dams and reservoirs	1,613.5	1,568.3	1,560.7
Water transportation facilities	3,993.4	3,892.6	3,820.7
Pumping plants and facilities	357.6	303.0	302.4
Treatment plants and facilities	3,126.3	3,185.8	2,969.8
Buildings	178.5	187.4	162.5
Other plant assets	795.8	750.2	745.1
Pre-operating expenses of original aqueduct	44.6	44.6	44.6
Participation rights in SWP	5,445.8	5,301.4	5,160.7
Participation rights in other facilities	459.0	459.0	459.5
Gross capital assets	17,868.7	17,446.5	17,141.8
Less accumulated depreciation and amortization	(7,360.3)	(7,053.0)	(6,731.8)
Total capital assets, net	\$ 10,508.4	\$ 10,393.5	\$ 10,410.0
Net increase (decrease) from prior year	\$ 114.9	\$ (16.5)	\$ (124.1)
Percent change	1.1%	(0.2%)	(1.2%)

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Fiscal Year 2020 Compared to 2019. Net capital assets totaled approximately \$10.5 billion and increased \$114.9 million over the prior year. The increase included \$339.3 million of construction spending and a net increase of \$144.4 million in participation rights in SWP, offset by depreciation and amortization of \$349.1 million and \$19.7 million retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred.

The major capital asset additions for the current year, excluding capitalized interest, included:

- \$85.7 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to ensure long-term reliability of Metropolitan's PCCP lines water delivery.
- \$58.7 million for the supply reliability and system expansion program; this program is designed to improve the reliability and flexibility of delivering Colorado River water during drought or other SWP delivery constraints.
- \$45.2 million for the improvements in infrastructure reliability at the treatment plants; this program will replace or refurbish facilities and components at Metropolitan's five water treatment plants in order to continue to reliably meet water demands.
- \$44.1 million for the system reliability program, which is designed to improve or modify facilities throughout Metropolitan's service area in order to utilize new processes and/or technologies, and to improve facility safety and overall reliability.
- \$33.9 million for the distribution system's rehabilitation program; this program will replace or refurbish existing facilities within Metropolitan's distribution system including reservoirs, pressure control structures, hydroelectric power plants, and pipelines in order to reliably meet water demands.

Metropolitan's fiscal year 2021 capital investment plan includes \$250.0 million principally for the Colorado River Aqueduct reliability programs, water treatment plants reliability program, systems and information technology improvements, distribution system and rehabilitation projects, and the PCCP rehabilitation program.

Fiscal Year 2019 Compared to 2018. Net capital assets totaled approximately \$10.4 billion and decreased \$16.5 million over the prior year. The decrease included depreciation and amortization of \$352.1 million and \$32.3 million retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred, offset by \$227.7 million of construction spending and a net increase of \$140.2 million in participation rights in SWP and other facilities.

The major capital asset additions for fiscal year 2019, excluding capitalized interest, included:

- \$46.4 million for the distribution system's rehabilitation program.
- \$37.9 million for the improvements in infrastructure reliability at the treatment plants.
- \$34.5 million for the PCCP program.
- \$26.3 million for the supply reliability and system expansion program.
- \$24.2 million for the system reliability program.

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DEBT ADMINISTRATION – LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

(Dollars in millions)	June 30,		
	2020	2019	2018
General obligation bonds ⁽¹⁾	\$ 37.3	\$ 48.1	\$ 60.6
Revenue bonds ⁽¹⁾	3,968.8	3,933.2	4,233.9
Revolving notes	46.8	46.8	—
Other, net ⁽²⁾	366.3	307.3	212.5
	\$ 4,419.2	\$ 4,335.4	\$ 4,507.0
Increase (decrease) from prior year	\$ 83.8	\$ (171.6)	\$ (72.7)
Percent change	1.9%	(3.8%)	(1.6%)

⁽¹⁾Includes refunding bonds.

⁽²⁾Consists of unamortized bond discounts and premiums.

Fiscal Year 2020 Compared to 2019. At June 30, 2020, outstanding bonds and other long-term obligations totaled \$4.4 billion, a net increase of \$83.8 million or 1.9 percent from the prior year. The increase included new revenue bond issuance of \$207.3 million and \$59.0 million, higher premiums and discounts due to \$104.6 million increase related to bond refundings, as the premiums on new debt issued was more than the premiums outstanding on the debt refunded offset by \$45.6 million related to scheduled amortization. These increases were offset by \$141.5 million of scheduled principal payments and \$41.0 million of bond refundings, as the new debt issued was less than the amount of debt refunded.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, outstanding bonds and other long-term obligations totaled \$4.3 billion, a net decrease of \$171.6 million or 3.8 percent from the prior year. The decrease was due to \$171.2 million of bond refundings, as the new debt issued was less than the amount of debt refunded and \$142.0 million of scheduled principal payments. These decreases were offset by \$94.8 million increase in premiums and discounts, which included \$129.3 million increase related to bond refundings, as the premiums on new debt issued was more than the premiums outstanding on the debt refunded, offset by \$34.5 million related to scheduled amortization. In addition, revolving notes increased \$46.8 million related to the BANA notes issued for the CWF advance funding.

Additional information on Metropolitan's long-term debt can be found in Notes 5 and 6 to the basic financial statements.

CREDIT RATINGS

Metropolitan's credit ratings at June 30, 2020 are shown below.

	Moody's Investors Service	Standard & Poor's Global	Fitch Ratings
General obligation bonds	Aaa	AAA	AA+
Water revenue bonds-fixed rate	Aa1	AAA	AA+
Water revenue bonds-variable rate	VMIG 1	A-1+	F1+
Subordinate water revenue bonds-fixed rate	N/A	AA+	AA+
Subordinate water revenue bonds-variable rate	N/A	A-1+	F1+

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COVID-19 PANDEMIC

The spread of the novel strain of coronavirus and the disease it causes (now known as “COVID-19”) is having significant negative impacts throughout the world, including in Southern California. The World Health Organization has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared in the United States (the “U.S.”), the State of California, and numerous counties throughout the State, including in the six counties all or portions of which comprise the service area of Metropolitan. On March 17, 2020, Metropolitan’s General Manager declared a state of emergency at Metropolitan. The purposes behind these declarations are to initiate emergency response protocols, coordinate and formalize emergency actions across federal, state and local governmental agencies, and to proactively prepare for a wider spread of the virus.

The outbreak resulted in the implementation of “stay-at-home” (or “safer-at-home”) orders by State and local governments for citizens to remain at home except for certain essential purposes, the imposition of restrictions on mass gatherings and the widespread temporary closings of businesses, universities and schools (including within the jurisdiction of Metropolitan and its member agencies). Although a gradual re-opening of various sectors has subsequently commenced in accordance with the Governor’s re-opening plan (based upon local conditions in each county), the pandemic and governmental response has materially altered the behavior of people, disrupted business activity and resulted in a significant contraction of the U.S., State and regional economies. Employment data released since the imposition of the restrictions have shown a dramatic increase in unemployment rates. In addition, stock markets in the U.S. and globally experienced significant declines in the fourth quarter of fiscal year 2020 following the onset of COVID-19 outbreak that have been attributed to COVID-19 concerns, although some recovery has occurred in the subsequent months. On June 9, 2020, the National Bureau of Economic Research determined that the U.S. had entered into a recession in the prior months.

Metropolitan has taken, and is taking, a number of steps to protect the health of its employees, maintain continuity of its critical and essential business functions and avoid widespread impacts to its workforce from the COVID-19 outbreak. Metropolitan’s Pandemic Action Plan is in effect. The following actions have been undertaken and are underway. A pandemic task force met regularly in the fourth quarter of fiscal year 2020 to review and update plans, prepare and implement action plans and coordinate Metropolitan’s overall response activities. Further, in March 2020, Metropolitan’s Emergency Operations Center (EOC) was activated in a virtual mode to monitor the spread of COVID-19 and coordinate emergency response activities throughout the organization and with other agencies. The EOC was demobilized as of June 30, 2020. Staff continues to communicate with county health agencies and the State, monitoring media reports and preparing and implementing action plans, as needed. Metropolitan’s Water System is in a federally designated critical infrastructure sector with exemptions under Governor Newsom’s Statewide “stay-at-home” order as needed to maintain continuity of operations. Personnel necessary to the operation and delivery of water supplies remain on-site, with staffing strategies being utilized to promote “social distancing.” Enhanced facility cleaning and disinfection practices have also been put in place to promote a safe and healthful workplace for these employees. Telecommuting arrangements and paid administrative leave for employees performing other functions were implemented in March 2020 along with limiting non-essential business travel. It is anticipated that these employees will continue telecommuting at least through the end of calendar year 2020.

COVID-19 is not believed to present a threat to the safety of Metropolitan’s treated water supplies. Metropolitan has also taken steps to ensure it has the necessary backup equipment, supplies and treatment chemicals in the event of

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disruptions to the supply chain for these items. To date, Metropolitan's ability to treat and deliver water has not been impaired.

Metropolitan is assessing the effects the ongoing COVID-19 outbreak will have on Metropolitan and its business and operations, as well as in the region, including the adverse financial impacts likely to be experienced by its member agencies. While Metropolitan continued to work on a variety of infrastructure and system reliability projects, certain Metropolitan projects and initiatives were initially paused as a result of the COVID-19 pandemic. Metropolitan has subsequently resumed its construction activities where the work can be done in keeping with best practices for pandemic safety. More broadly, press reports and analyses have suggested that water service providers serving residential, commercial and industrial end-use customers (referred to herein as "retail water service providers"), which includes some Metropolitan member agencies and agencies that purchase water from them, anticipate their customers are likely to be adversely impacted financially. As a measure to help mitigate such financial impacts and assure access to water service, on April 2, 2020, Governor Newsom issued an executive order which, among other things, orders the restoration of water service to residential customers in occupied residences whose service was discontinued for nonpayment during the state of emergency, and suspends the authority of retail water service providers to discontinue water service to residential and qualifying small business customers for non-payment. Voluntary measures may also be taken by retail water service providers in the State to assist their customers facing financial hardship as a result of the COVID-19 outbreak. The financial impacts to retail water customers and measures taken to assist them may result in more non-payment of utility bills than normal and forecasted, which is likely to further create financial stress on retail water service providers, including some Metropolitan member agencies.

In recognition of the changed circumstances and the uncertainties created by the ongoing COVID-19 outbreak, in the weeks following the declaration of a pandemic by the World Health Organization on March 11, 2020, Metropolitan reviewed its preliminary biennial budget initially presented to the Board in February 2020, and modified certain assumptions previously made in the proposed budget. The biennial budget for fiscal years 2020-21 and 2021-22, and water rates and charges for calendar years 2021 and 2022 adopted by the Board on April 14, 2020, reflect these adjustments, which include (i) a reduction in the overall rate increases for calendar years 2021 and 2022 from those previously proposed; (ii) a reduction in capital expenditures for fiscal year 2020-21 in recognition of likely delays in scheduling of construction work as a result of COVID-19; (iii) a reduction in the internal funding objective for the funding of capital program expenditures from current revenues for fiscal year 2020-21; and (iv) to review the adopted budget and rates no later than September 2020 to consider further impacts resulting from the COVID-19 crisis. On September 15, 2020, the Board approved a cost-cutting plan to reduce Metropolitan expenditures by \$10.7 million and \$1.0 million in fiscal years 2021 and 2022, respectively. The Board also directed Metropolitan staff to develop a penalty-free payment deferment program, evaluate potential new revenue-generating programs, and place a moratorium on non-emergency unbudgeted spending.

The COVID-19 outbreak is ongoing and developments will continue. The degree of impact to Metropolitan's finances and operations is difficult to predict due to the evolving nature of the COVID-19 pandemic, including uncertainties relating to (i) the duration and severity of the outbreak; (ii) the extent of the disruption to or decline in the local and global economies and financial markets; (iii) the degree to which business closures, increased unemployment, housing foreclosures and/or other economic consequences may reduce water demands in the region and Metropolitan's water transactions, or negatively affect future property values in Metropolitan's service area and/or Metropolitan's property tax levy receipts, and reduce Metropolitan's revenues; (iv) the extent to which a protracted

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disruption in the manufacturing or construction industry may affect supply chains or further delay construction schedules for, or the implementation of, Metropolitan's capital improvement programs and projects, or the costs of such programs or projects or Metropolitan's water system operations; and (v) what additional actions may be taken or required by governmental authorities to contain and respond to the outbreak and what the costs or impacts of such actions may be. It is expected that restrictions and limitations instituted related to COVID-19 will likely remain in place for some period, that the ongoing economic downturn may continue for many months and that the recovery may be prolonged. As a result, Metropolitan's finances and operations may be adversely impacted by COVID-19.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENTS OF NET POSITION

	June 30,	
	2020	2019
(Dollars in thousands)		
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and investments, at fair value (Notes 1d and 3):		
Unrestricted (cost: \$430,819 and \$459,590 for 2020 and 2019, respectively)	\$ 434,297	\$ 460,854
Restricted (cost: \$515,761 and \$425,332 for 2020 and 2019, respectively)	519,926	426,503
Total cash and investments	<u>954,223</u>	887,357
Receivables:		
Water revenues	223,221	170,130
Interest on investments	3,551	4,725
Other, net (Note 1f)	37,914	29,737
Total receivables	<u>264,686</u>	204,592
Inventories (Note 1g)	118,465	123,003
Deposits, prepaid costs, and other (Note 11)	2,782	2,040
Total current assets	<u>1,340,156</u>	1,216,992
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1d and 3):		
Unrestricted (cost: \$249,902 and \$255,885 for 2020 and 2019, respectively)	251,920	256,590
Restricted (cost: \$45,422 and \$41,856 for 2020 and 2019, respectively)	45,977	42,158
Total cash and investments	<u>297,897</u>	298,748
Capital assets (Note 2):		
Plant and equipment - non depreciable (Notes 1h and 9f)	1,620,950	1,530,628
Plant and equipment - depreciable (Notes 1h and 9f)	10,342,849	10,155,417
Participation rights in State Water Project (Notes 1i, 2 and 10)	5,445,832	5,301,433
Participation rights in other facilities (Notes 1i, 2 and 4)	459,049	459,049
Total capital assets	<u>17,868,680</u>	17,446,527
Less accumulated depreciation and amortization	(7,360,295)	(7,053,048)
Total capital assets, net	<u>10,508,385</u>	10,393,479
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 11)	354,328	329,244
Total other assets	<u>354,328</u>	329,244
Total noncurrent assets	<u>11,160,610</u>	11,021,471
Total assets	<u>12,500,766</u>	12,238,463
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1n)	19,632	24,629
Loss on swap terminations (Note 1n)	18,987	18,500
Pension related (Notes 11, 1n, and 7d)	85,243	106,935
OPEB related (Notes 1m, 1n, and 8k)	33,506	32,067
Effective swaps (Note 1n)	11,711	—
Total deferred outflows of resources	<u>169,079</u>	182,131
Total Assets and Deferred Outflows of Resources	\$ 12,669,845	\$ 12,420,594

See accompanying notes to basic financial statements

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30,	
	2020	2019
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued expenses (Note 1j)	\$ 109,083	\$ 131,952
Short-term revolving notes (Note 5a)	35,645	—
Current portion of long-term debt (Notes 5 and 6)	1,039,054	468,037
Current portion of accrued compensated absences (Notes 1k and 6)	24,700	22,000
Current portion of customer deposits and trust funds (Note 6)	11,924	8,335
Current portion of workers' compensation and third party claims (Notes 6 and 14)	4,122	3,284
Current portion of other long-term liabilities (Note 6)	5	5
Accrued bond interest	65,581	51,558
Matured bonds and coupons not presented for payment	1,725	1,754
Total current liabilities	1,291,839	686,925
Noncurrent Liabilities:		
Long-term debt, net of current portion (Notes 5 and 6)	3,333,372	3,820,568
Long-term revolving notes (Notes 5a and 6)	46,800	46,800
Accrued compensated absences, net of current portion (Notes 1k and 6)	27,581	26,397
Customer deposits and trust funds, net of current portion (Note 6)	44,837	41,062
Net pension liability (Note 7c)	668,995	634,037
Net OPEB liability (Note 8f)	167,986	228,334
Workers' compensation and third party claims, net of current portion (Notes 6 and 14)	9,480	9,674
Fair value of interest rate swaps (Notes 5e and 6)	68,611	56,274
Other long-term liabilities, net of current portion (Note 6)	2,204	2,204
Total noncurrent liabilities	4,369,866	4,865,350
Total liabilities	5,661,705	5,552,275
Commitments and Contingencies (Note 9)		
Deferred Inflows of Resources:		
Effective swaps (Note 1n)	—	626
Pension related (Notes 1l, 1n and 7d)	21,298	24,206
OPEB related (Notes 1m, 1n, and 8k)	47,337	7,288
Total deferred inflows of resources	68,635	32,120
Total Liabilities and Deferred Inflows of Resources	5,730,340	5,584,395
Net Position (Note 13):		
Net investment in capital assets, including State Water Project costs	6,121,599	6,131,572
Restricted for:		
Debt service	196,478	180,724
Other	276,638	237,893
Unrestricted	344,790	286,010
Total net position	6,939,505	6,836,199
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 12,669,845	\$ 12,420,594

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

(Dollars in thousands)	Fiscal Year Ended June 30,	
	2020	2019
Operating Revenues (Note 1c):		
Water revenues	\$ 1,187,998	\$ 1,148,674
Readiness-to-serve charges	134,500	136,500
Capacity charge	30,490	33,024
Power sales	15,922	18,257
Total operating revenues	1,368,910	1,336,455
Operating Expenses:		
Power and water costs	438,683	375,780
Operations and maintenance	557,341	493,962
Total operating expenses	996,024	869,742
Operating income before depreciation and amortization	372,886	466,713
Less depreciation and amortization (Note 2)	(353,031)	(361,091)
Operating income	19,855	105,622
Nonoperating Revenues (Expenses) (Note 1p):		
Taxes, net (Note 1e)	146,902	142,683
Bond interest, net of \$9,800 and \$4,700 of interest capitalized in fiscal years 2020 and 2019, respectively (Note 1h)	(100,726)	(126,925)
Investment income, net	28,868	36,003
Loss on disposal of plant assets	(10,166)	(13,678)
Other, net	18,573	5,169
Total nonoperating revenues, net	83,451	43,252
Changes in Net Position Before Contributions	103,306	148,874
Capital contributions (Note 1o)	—	840
Changes in net position	103,306	149,714
Net position, beginning of year	6,836,199	6,686,485
Net position, End of Year	\$ 6,939,505	\$ 6,836,199

See accompanying notes to basic financial statements.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended June 30,	
(Dollars in thousands)	2020	2019
Cash Flows from Operating Activities:		
Cash received from water sales	\$ 1,001,256	\$ 1,101,721
Cash received from readiness-to-serve charges	134,236	137,158
Cash received from capacity charge	30,347	33,293
Cash received from power sales	16,745	17,536
Cash received from other exchange transactions	133,793	97,855
Cash paid for operations and maintenance expenses	(267,120)	(268,692)
Cash paid to employees for services	(247,652)	(226,645)
Cash paid for power and water costs	(495,479)	(378,180)
Other cash flows for operating activities	1,575	1,618
Net cash provided by operating activities	307,701	515,664
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	7,487	10,047
Net cash provided by noncapital financing activities	7,487	10,047
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(335,526)	(231,747)
Payments for State Water Project costs	(144,399)	(140,688)
Refunds (advance payments) for California WaterFix Project costs	34,007	(41,500)
Proceeds from short and long-term debt	305,645	46,833
Payments for bond issuance costs	(4,102)	(3,418)
Principal paid on debt	(141,500)	(175,973)
Interest paid on debt	(140,483)	(184,487)
Proceeds from tax levy	147,102	145,154
Transfer from escrow trust accounts	1,510	10,571
Payments of rebatable arbitrage	—	(10)
Proceeds from sale of capital assets	—	9,730
Net cash used by capital and related financing activities	(277,746)	(565,535)
Cash Flows from Investing Activities:		
Purchase of investment securities	(2,992,894)	(6,377,345)
Proceeds from sales and maturities of investment securities	2,937,477	6,223,438
Investment income	18,114	31,374
Net cash used by investing activities	(37,303)	(122,533)
Net change in cash	139	(162,357)
Cash at July 1, 2019 and 2018	22	162,379
Cash at June 30, 2020 and 2019 (Notes 1b and 3a)	\$ 161	\$ 22

See accompanying notes to basic financial statements.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended June 30,	
(Dollars in thousands)	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 19,855	\$ 105,622
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization expense	353,031	361,091
(Increase) decrease in accounts receivable	(61,172)	51,464
Decrease (increase) in inventories	4,538	(25,276)
Increase in deposits, prepaid costs, and other	(21,985)	(21,007)
(Decrease) increase in accounts payable, and accrued expenses	(20,571)	30,175
Increase (decrease) in pension liabilities	30,763	(22,943)
Decrease in OPEB liabilities	(53,106)	(10,522)
Decrease in deferred outflows related to pension	19,089	27,064
(Decrease) increase in deferred inflows related to pension	(2,559)	5,478
(Increase) decrease in deferred outflows related to OPEB	(1,266)	2,242
Increase in deferred inflows related to OPEB	35,243	310
Increase in other items	5,841	11,966
Total Adjustments	287,846	410,042
Net cash provided by operating activities	\$ 307,701	\$ 515,664
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	\$ 465,703	\$ 808,053
Debt defeased through escrow trust fund with refunding debt	\$ (465,275)	\$ (785,030)
Deferred gain on refunding debt	\$ —	\$ 8,694
RECONCILIATION OF CASH AND INVESTMENTS TO CASH		
Unrestricted cash and investments (at June 30, 2020 and 2019 includes \$161 and \$22 of cash, respectively)	\$ 686,217	\$ 717,444
Restricted cash and investments	565,903	468,661
Total cash and investments, at fair value	1,252,120	1,186,105
Less: carrying value of investments	(1,251,959)	(1,186,083)
Total Cash (Notes 1b and 3a)	\$ 161	\$ 22

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020 and 2019

I. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Metropolitan Water District of Southern California (Metropolitan), a special district of the State of California, was organized in 1928 by vote of the electorates of several Southern California cities following adoption of the Metropolitan Water District Act (Act) by the California Legislature. Metropolitan's primary purposes under the Act are to develop, store, and distribute water, at wholesale, to its member public agencies for domestic and municipal purposes. Surplus water is sold for other beneficial uses, including agricultural use. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura. There are 26 independent member agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan has no financial accountability for its member agencies. Metropolitan is governed by a 38-member Board of Directors (Board) comprised of representatives of the member agencies. Representation and voting rights are based on assessed valuations of property pursuant to Sections 52 and 55 of the Act. Each member agency is entitled to have at least one representative on the Board plus an additional representative for each full five percent of the assessed valuation of real property within the jurisdictional boundary of each member agency. Changes in relative assessed valuation do not terminate any director's term. Accordingly, the Board may, from time to time, have more or fewer than 38 directors. However, effective January 1, 2020, no member agency shall have fewer than the number of representatives the agency had as of January 1, 2019. No single member agency has a voting majority.

The Metropolitan Water District Asset Financing Corporation (MWDAFC) was incorporated on June 19, 1996. The MWDAFC is a California nonprofit public benefit corporation formed to assist Metropolitan by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by Metropolitan and leasing or selling such property to Metropolitan. The MWDAFC is governed by a board of five directors, each of whom must be a member of Metropolitan's Board. MWDAFC had no financial operations during fiscal years 2020 or 2019. MWDAFC is a component unit of Metropolitan and its activities will be blended with those of Metropolitan for financial reporting purposes should it commence operations.

(b) Principles of Presentation

Metropolitan operates as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting. The accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under full accrual accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

For purposes of the statements of cash flows, Metropolitan defines cash as demand account balances and cash on hand.

(c) Revenue Policies

Water revenues, which include funds received from charges for the sale and availability of water, including water rates and other exchange and wheeling transactions, is the principal source of Metropolitan's revenues. Other sources of operating revenue include readiness-to-serve charges, capacity charge, and hydroelectric power sales. Other revenues include ad valorem property taxes and investment income.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2020 and 2019

Water rates are established by the Board on a biennial basis. Water rates are supported by cost of service studies. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Water is delivered to the member agencies on demand and revenue is recognized at the time of sale.

Metropolitan's rate structure consists of unbundled rate elements (supply, treatment, conveyance and distribution, power, and demand management) designed to provide transparency regarding the cost of specific functions to member agencies. It is designed to improve regional water resources management and accommodate a water transfer market. The rate structure also includes tiered pricing for supply, a capacity charge, and a readiness-to-serve charge.

(d) Fair Value Measurements

Metropolitan categorizes the fair value measurements for assets and liabilities within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs of assets and liabilities as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date; Level 2 inputs are inputs—other than quoted prices—that are observable for identical assets or liabilities, either directly or indirectly; and Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Metropolitan reports its investments and liabilities using valuation techniques consistent with market and cost approaches to determine the fair value.

(e) Taxing Authority

Metropolitan is expressly empowered under the Act to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the California Revenue and Taxation Code, and the California Constitution. Property taxes are levied annually by the Board effective as of July 1, using a lien date of January 1, and are payable by property owners in two equal installments that are due on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Property taxes levied by Metropolitan are billed and collected by the counties in its service area and are remitted to Metropolitan periodically throughout the year.

Property tax revenue is used to pay Metropolitan's general obligation bond debt service and a portion of its obligations under its contract with the state for a water supply and participation in the SWP (the State Water Contract). In setting the annual levy, Metropolitan takes into account potential delinquencies, tax allocations to the successor agencies of former redevelopment agencies, and supplemental tax collections. Metropolitan recognizes property taxes receivable on July 1 of each fiscal year and recognizes revenue over the following 12-month period beginning July 1 through June 30 (the period for which the tax is levied).

As a result of legislation enacted in 1984, commencing with the fiscal year ended June 30, 1991, tax levies, other than annexation taxes, are limited to the amount needed to pay debt service on Metropolitan's general obligation bonds and Metropolitan's proportionate share of general obligation bond debt service of the state under the State Water Contract. However, under the terms of the 1984 legislation, the Board may suspend this particular restriction upon a finding that doing so is essential to Metropolitan's fiscal integrity. The Board made such a finding for fiscal years ended June 30, 2014 through 2020, and maintained the tax rate for those fiscal years at the rate levied during fiscal year ended June 30, 2013 to pay a portion of State Water Contract costs other than general obligation debt service.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2020 and 2019

(f) Other Receivables

Other receivables include amounts for taxes, hydroelectric power sales, readiness-to-serve charges, and other billings.

(g) Inventories

Metropolitan's inventories are valued based on a moving-average cost. Expenses are recorded when inventories are used. Components of inventories at June 30, 2020 and 2019 were as follows:

(Dollars in thousands)	June 30,	
	2020	2019
Water in storage	\$ 103,922	\$ 109,612
Operating supplies	14,543	13,391
Total inventories	\$ 118,465	\$ 123,003

(h) Capital Assets

Metropolitan's capital assets include plant and equipment, which are recorded at cost. Construction costs are capitalized if they exceed \$50,000 and the asset has a useful life of at least five years. The cost of constructed assets may include labor, materials, certain general and administrative expenses, and interest incurred during construction periods. Depreciation is calculated using the straight-line method based on the estimated average useful lives of the assets, which are 10 to 80 years for buildings, storage, distribution facilities, and miscellaneous assets and 10 to 50 years for treatment plants and hydroelectric power recovery facilities. Improvements or refurbishments with aggregated costs that meet capitalization thresholds and that extend the useful life of an existing asset by at least five years are capitalized.

Major computer systems software, whether purchased or internally developed, is capitalized if the cost exceeds \$250,000 and the useful life is at least three years. Vehicles and operating equipment are capitalized if the cost equals or exceeds \$5,000 and the useful life is at least four years. Depreciation is calculated using the straight-line method based on the estimated useful lives and ranges from 3 to 10 years for major computer systems software and 4 to 10 years for vehicles and operating equipment.

(i) Participation Rights

Metropolitan participates in various storage and water management programs entitling it to certain water rights. Projects include the SWP and various storage and water management programs. Metropolitan's participation in these projects is through cash payments. The value of participation rights is equal to the amounts spent for the construction of capital assets, such as pipelines, pumping facilities, and storage facilities, and amortized over the life of the agreements. These assets are not owned by Metropolitan. Certain projects also require payments for ongoing maintenance; those payments are charged to expense as incurred. (See Notes 2, 4, and 10.)

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2020 and 2019

(j) Disaggregation of Payable Balances

Accounts payable and accrued expenses at June 30, 2020 and 2019 were as follows:

(Dollars in thousands)	June 30,	
	2020	2019
Department of Water Resources (SWP):		
Capital, operating, maintenance, power, replacement, and variable power	\$ 48,943	\$ 72,910
Vendors	35,484	42,989
Accrued power costs	4,860	1,578
Accrued salaries	10,946	8,699
Readiness-to-serve overcollection	1,436	1,368
Conservation credits	7,414	4,408
Total accounts payable and accrued expenses	\$ 109,083	\$ 131,952

(k) Compensated Absences

Metropolitan's employees earn vacation, sick, and compensatory leave in varying amounts depending primarily on length of service. Upon termination from Metropolitan service, employees are entitled to full payment for accrued vacation and compensatory leave at their final pay rates, and are entitled to payment for approximately one-half of their accrued sick leave at such rates. Metropolitan records its obligations for vacation, sick, and compensatory leave earned by eligible employees based on current pay rates. The allocations to the current and long-term portions of these vested obligations were based on experience and projections of turnover.

(l) Pension Accounting

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD): June 30, 2018

Measurement Date (MD): June 30, 2019

Measurement Period: July 1, 2018 to June 30, 2019

(m) OPEB Accounting

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Metropolitan's plan (OPEB Plan), the assets of which are held by the California Employer's Retiree Benefit Trust (CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

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GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD): June 30, 2019

Measurement Date (MD): June 30, 2019

Measurement Period: July 1, 2018 to June 30, 2019

(n) Deferred Outflows/Inflows of Resources

The net investment in capital assets, including State Water Project costs of \$6.1 billion at June 30, 2020 and 2019, includes the effect of deferring the recognition of losses from bond refundings. The deferred outflows from losses on bond refundings at June 30, 2020 and 2019 were \$19.6 million and \$24.6 million, respectively. This is amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old or the new debt, whichever is shorter.

The unrestricted net position amount of \$344.8 million and \$286.0 million at June 30, 2020 and 2019, respectively, includes the effect of deferring the recognition of losses from swap terminations resulting in defeasance of debt, the increase or decrease in fair value of Metropolitan's effective interest rate swaps, and deferred amounts related to pension and OPEB.

The deferred outflows from losses on swap terminations resulting in debt defeasance at June 30, 2020 and 2019, respectively, were \$19.0 million and \$18.5 million. These deferred outflows of resources are amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The deferred outflows related to pension at June 30, 2020 and 2019 were \$85.2 million and \$106.9 million, respectively. The deferred inflows related to pension at June 30, 2020 and 2019 were \$21.3 million and \$24.2 million, respectively. See note 7(d) for additional information.

The deferred outflows related to OPEB at June 30, 2020 and 2019 were \$33.5 million and \$32.1 million, respectively. The deferred inflows related to OPEB at June 30, 2020 and 2019 were \$47.3 million and \$7.3 million, respectively. See notes 8(j) and (k) for additional information.

The deferred outflow from the decrease in fair value of interest rate swaps of \$11.7 million at June 30, 2020 and the deferred inflow from the increase in fair value of interest rate swaps of \$0.6 million at June 30, 2019, would be recognized as an investment loss or gain, respectively, upon the early termination of the swaps. Metropolitan will only terminate its interest rate swap agreements in advance of the contractual termination dates if market conditions permit. The deferred outflow and deferred inflow also would be recognized as an investment loss or gain, respectively, if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred outflow and deferred inflow would be reduced and the deferred loss or gain on refunding, respectively, would be increased by the same amount. The deferred loss or gain would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

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(o) Capital Contributions

Capital contributions are comprised of federal, state, and private grants. These grants are typically of a reimbursable nature: Metropolitan first pays for the project and then the granting agency reimburses Metropolitan for its eligible expenses. The portion of the grants restricted for capital purposes are reflected as capital contributions in the statements of revenues, expenses and changes in net position when they are earned, irrespective of the timing of the receipts. Examples of capital projects where grants are received include water treatment plant improvements, such as fluoridation and water storage programs.

(p) Operating and Nonoperating Revenues and Expenses

Metropolitan's primary purpose is to provide a supplemental supply of water for domestic and municipal uses. Accordingly, Metropolitan defines operating revenues as revenues derived from the sale and availability of water, including water rates and other exchange and wheeling transactions. It also includes readiness-to-serve charges, capacity charge, and hydroelectric power sales. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization of capital assets.

Revenues from property taxes and investment income, as well as interest expense on outstanding debt, are related to capital and financing activities and are defined as nonoperating revenues and expenses.

(q) Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is Metropolitan's practice to use restricted resources first, then unrestricted resources as they are needed.

(r) Use of Estimates

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) New Accounting Pronouncements

In May 2020, the GASB issued Statement No. 95 (GASB 95), *Postponement of the Effective Dates of Certain Authoritative Guidance*, with the primary objective of providing temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. As a result of GASB 95, all GASB Statements that would have been applicable in fiscal year 2020 were delayed until fiscal year 2021 or later, as noted below.

Metropolitan is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements that will be implemented in a future fiscal year:

- GASB Statement No. 87, *Leases* (effective for fiscal year 2022).
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (effective for fiscal year 2022).
- GASB Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61* (effective for fiscal year 2021).
- GASB Statement No. 92, *Omnibus 2020* (effective for fiscal year 2022).

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June 30, 2020 and 2019

- GASB Statement No. 93, *Replacement of Interbank Offered Rates* (effective for fiscal year 2022).
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (effective for fiscal year 2023).
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (effective for fiscal year 2023).
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* (effective for fiscal year 2022).

The following pronouncements were issued by GASB but were determined to not be applicable to Metropolitan's financial statements:

- GASB Statement No. 84, *Fiduciary Activities*.
- GASB Statement No. 91, *Conduit Debt Obligations*.

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(CONTINUED)
June 30, 2020 and 2019

2. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2020 and 2019 was as follows:

(Dollars in thousands)	June 30, 2018	Additions
Capital assets not being depreciated:		
Land, easements and rights of way	\$ 994,837	\$ 2,965
Construction in progress	691,765	218,423
Total capital assets not being depreciated	<u>1,686,602</u>	<u>221,388</u>
Other capital assets:		
Parker power plant and dam	13,009	—
Power recovery plants	216,154	468
Other dams and reservoirs	1,560,703	7,862
Water transportation facilities	3,820,681	89,490
Pumping plants and facilities	302,346	1,115
Treatment plants and facilities	2,969,778	223,818
Power lines and communication facilities	32,678	—
Computer systems software	115,056	—
Buildings	162,546	24,859
Miscellaneous	495,044	8,559
Major equipment	102,315	6,352
Pre-operating expenses of original aqueduct	44,595	—
Participation rights in State Water Project (Note 10)	5,160,746	177,022
Participation rights in other facilities (Note 4)	459,489	—
Total other capital assets at historical cost	<u>15,455,140</u>	<u>539,545</u>
Accumulated depreciation and amortization:		
Parker power plant and dam	(12,300)	(163)
Power recovery plants	(102,267)	(4,540)
Other dams and reservoirs	(402,128)	(20,803)
Water transportation facilities	(1,014,774)	(56,015)
Pumping plants and facilities	(104,183)	(5,441)
Treatment plants and facilities	(747,983)	(85,698)
Power lines and communication facilities	(11,095)	(400)
Computer systems software	(109,398)	(2,200)
Buildings	(34,709)	(3,222)
Miscellaneous	(142,134)	(11,755)
Major equipment	(86,029)	(5,351)
Pre-operating expenses of original aqueduct	(41,489)	(1,035)
Participation rights in State Water Project (Note 10)	(3,719,225)	(141,700)
Participation rights in other facilities (Note 4)	(204,077)	(13,796)
Total accumulated depreciation and amortization	<u>(6,731,791)</u>	<u>(352,119)</u>
Other capital assets, net	<u>8,723,349</u>	<u>187,426</u>
Total capital assets, net	<u>\$ 10,409,951</u>	<u>\$ 408,814</u>

Depreciation and amortization was charged as follows:

- Depreciation of water related assets
- Amortization of State Water Project participation rights (Note 10)
- Amortization of other participation rights (Note 4)
- Depreciation and amortization expense related to capital assets

Plus: Net retirements adjusted to expense

Total depreciation and amortization expense

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NOTES TO BASIC FINANCIAL STATEMENTS
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June 30, 2020 and 2019

Reductions	June 30, 2019	Additions	Reductions	June 30, 2020
\$ (12,977)	\$ 984,825	\$ 902	\$ (931)	\$ 984,796
(364,385)	545,803	326,418	(236,067)	636,154
(377,362)	1,530,628	327,320	(236,998)	1,620,950
—	13,009	—	—	13,009
(6,045)	210,577	10,422	(764)	220,235
(235)	1,568,330	47,935	(2,753)	1,613,512
(17,603)	3,892,568	119,404	(18,539)	3,993,433
(429)	303,032	55,464	(909)	357,587
(7,815)	3,185,781	22,995	(82,456)	3,126,320
—	32,678	7,544	(161)	40,061
(246)	114,810	6,935	(3,315)	118,430
—	187,405	15,399	(24,298)	178,506
(5,790)	497,813	33,361	(2,110)	529,064
(3,848)	104,819	6,400	(3,122)	108,097
—	44,595	—	—	44,595
(36,335)	5,301,433	181,880	(37,481)	5,445,832
(440)	459,049	—	—	459,049
(78,786)	15,915,899	507,739	(175,908)	16,247,730
—	(12,463)	(163)	—	(12,626)
4,289	(102,518)	(3,454)	764	(105,208)
235	(422,696)	(10,198)	2,645	(430,249)
10,280	(1,060,509)	(62,180)	10,550	(1,112,139)
429	(109,195)	(8,026)	758	(116,463)
7,249	(826,432)	(76,227)	17,488	(885,171)
—	(11,495)	(462)	161	(11,796)
246	(111,352)	(2,167)	1,911	(111,608)
—	(37,931)	(4,089)	4,086	(37,934)
4,298	(149,591)	(18,829)	321	(168,099)
3,836	(87,544)	(5,747)	3,122	(90,169)
—	(42,524)	(1,035)	—	(43,559)
—	(3,860,925)	(142,696)	—	(4,003,621)
—	(217,873)	(13,780)	—	(231,653)
30,862	(7,053,048)	(349,053)	41,806	(7,360,295)
(47,924)	8,862,851	158,686	(134,102)	8,887,435
\$ (425,286)	\$ 10,393,479	\$ 486,006	\$ (371,100)	\$ 10,508,385
	\$ 196,623		\$ 192,577	
	141,700		142,696	
	13,796		13,780	
	352,119		349,053	
	8,972		3,978	
	\$ 361,091		\$ 353,031	

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June 30, 2020 and 2019

3. CASH AND INVESTMENTS

As a public agency, Metropolitan's investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. Metropolitan's statement of investment policy is approved annually by the Board and describes the Treasurer's investment authority, practices, and limitations. The basic investment policy objectives, in order of importance, are safety of principal, liquidity, and return on investment.

Cash and investments may or may not be restricted as to use, depending on the specific purposes for which such assets are held (see Notes 3d and 13).

A summary of Metropolitan's deposit and investment policies, information on interest and credit risks, and restricted cash and investments is provided below.

(a) Deposits

The California Government Code requires California banks and savings and loan associations to secure a local government agency's deposits by pledging government securities as collateral.

As of June 30, 2020 and 2019, Metropolitan's cash balances with financial institutions were \$156,000 and \$17,000 respectively, and cash on hand was \$5,000 at each year-end.

(b) Investments

Metropolitan is permitted by State law and Board policy to invest in a variety of instruments including U.S. Treasury securities, federal agencies, Supranationals, asset backed, repurchase agreements, negotiable certificates of deposit, bankers' acceptances, prime commercial paper, Government-sponsored enterprise (GSE), California local agency securities, including securities issued by Metropolitan, medium-term corporate notes, time deposits, investment contracts, money market funds, California Asset Management Program (CAMP) and Local Agency Investment Fund (LAIF). As of June 30, 2020 and 2019, Metropolitan had the following investments at fair value:

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(Dollars in thousands)	June 30,	
	2020	2019
U.S. Treasury securities	\$ 173,164	\$ 88,340
Federal agency securities	41,306	82,406
Asset backed securities	42,419	—
Supranationals	38,535	—
Prime commercial paper	74,988	134,176
Medium-term corporate notes	230,027	277,392
Negotiable certificates of deposit	136,265	230,648
Money market funds	167,532	241,988
GSE	58,856	64,022
Municipal bonds	3,524	2,111
CAMP	210,343	—
LAIF	75,000	65,000
Total investments	\$ 1,251,959	\$ 1,186,083

Metropolitan categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is the summary of the fair value hierarchy of the fair value of investments of Metropolitan as of June 30, 2020 and 2019:

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(Dollars in thousands)	Fair Value Measurement Using					
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	6/30/2020	6/30/2019	6/30/2020	6/30/2019	6/30/2020	6/30/2019
Investments by fair value level:						
U.S. Treasury securities	\$ 173,164	\$ 173,164	\$ —	\$ 88,340	\$ 88,340	\$ —
Federal agency securities	41,306	41,306	—	82,406	82,406	—
Asset backed securities	42,419	42,419	—	—	—	—
Supranationals	38,535	38,535	—	—	—	—
Prime commercial paper	74,988	—	74,988	134,176	—	134,176
Medium-term corporate notes	230,027	230,027	—	277,392	277,392	—
Negotiable certificates of deposit	136,265	126,262	10,003	230,648	170,596	60,052
GSE	58,856	58,856	—	64,022	64,022	—
Municipal bonds	3,524	3,524	—	2,111	2,111	—
Total investments by fair value level	\$ 799,084	\$ 714,093	\$ 84,991	\$ 879,095	\$ 684,867	\$ 194,228
 Investments not subject to fair value level:						
Money market funds ⁽¹⁾	167,532			241,988		
CAMP	210,343			—		
LAIF	75,000			65,000		
Total investments	\$ 1,251,959			\$ 1,186,083		

⁽¹⁾ As of June 30, 2020 and 2019, the balance was invested in Dreyfus Gov't Cash Management and Dreyfus AMT-Free Tax Exempt (DGCXX & DEIXX) and BlackRock Treasury Trust (ITXX).

Investments classified in Level 1 of the fair value hierarchy, valued at \$714.1 million and \$684.9 million as of June 30, 2020 and 2019, respectively, are valued using quoted prices in active markets.

Prime commercial paper totaling \$75.0 million and \$134.2 million and negotiable certificates of deposit totaling \$10.0 million and \$60.1 million, as of June 30, 2020 and 2019, respectively, classified in Level 2 of the fair value hierarchy were valued using matrix pricing.

Metropolitan owns investments utilizing a stable one dollar per share value. These investment assets are exempt from reporting under the fair value measurement levels. There are no redemption restrictions for the investments reported at a value of one dollar per share.

Interest rate risk. In accordance with Metropolitan's investment policy, interest rate risk was managed by limiting the duration of the various portfolio segments. Each segment has limitations on the amount of duration exposure (see the following for specific durations).

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Internally Managed Segment

This segment of the portfolio was managed against the Intercontinental Exchange Bank of America Merrill Lynch (ICE BoAML) 3-Month Treasury Bill Index, approved by the Finance and Insurance Committee. For fiscal years 2020 and 2019, the benchmark duration was 0.23 and the portfolio duration was permitted to vary from the duration by plus or minus 0.50. As of June 30, 2020 and 2019, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	June 30,			
	2020		2019	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 120,138	0.41	\$ 33,900	1.26
Federal agency securities	39,983	1.16	82,157	0.57
Asset backed securities	42,419	2.17	—	—
Supranationals	38,535	0.43	—	—
Prime commercial paper	74,988	0.09	134,176	0.22
Medium-term corporate notes	146,084	0.60	207,391	0.77
Negotiable certificates of deposit	136,265	0.36	230,648	0.33
Money market funds	165,428	—	241,039	—
Municipal bonds	2,135	2.17	768	5.05
CAMP	210,343	—	—	—
LAIF	75,000	—	65,000	—
Total portfolio segment	\$ 1,051,318		\$ 995,079	
Portfolio duration		0.33		0.36

Externally Managed Segment

This segment of the portfolio was managed against the ICE BoAML, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. For fiscal years 2020 and 2019, the benchmark durations were 2.66 and 2.61, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of June 30, 2020 and 2019, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	June 30,			
	2020		2019	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 50,512	3.65	\$ 50,873	2.08
Medium-term corporate notes	83,943	2.10	70,001	2.36
Money market funds	1,756	—	194	—
GSE	58,856	1.56	64,022	2.20
Total portfolio segment	\$ 195,067		\$ 185,090	
Portfolio duration		2.32		2.22

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Bond Reserves and Lake Mathews Segment

Investments in the bond reserves were managed based on the requirements of each of the bond issues. The Lake Mathews trust funds were managed in a manner that preserved the principal and provided the necessary liquidity to pay its operating expenses. Per Board authorization, the Treasurer was authorized to invest these monies in excess of five years.

As of June 30, 2020 and 2019, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	June 30,	
	2020	2019
U.S. Treasury securities	\$ 2,514	0.97
Federal agency securities	1,323	1.58
Money market funds	348	—
Municipal bonds	1,389	3.22
Total portfolio segment	\$ 5,574	\$ 5,914
Weighted average duration	1.61	1.71

Credit risk. Credit risk was managed by purchasing investments with the nationally recognized credit ratings specified in Metropolitan's investment policy. Additionally, the policy required monitoring the credit ratings of securities held in the portfolio, and if the securities' credit ratings were downgraded, evaluating for potential sale. For certain securities, additional requirements included consideration of net worth, length of time in business, and specified market values.

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June 30, 2020 and 2019

Presented in the following table is the minimum rating required, if applicable, by investment type pursuant to Metropolitan's investment policy and State law:

Investment Type	Minimum Rating
U.S. Treasury Federal Agency Obligations	Not applicable.
Bankers' acceptances	A-1 or its equivalent or better by a nationally recognized rating agency (NRSRO).
Prime commercial paper	Highest ranking or highest letter and number rating as provided by a NRSRO.
Negotiable certificates of deposit	A (long-term) or A-1 (short-term) their equivalent or better by a NRSRO.
Time deposits	All deposits must be collateralized as required by California Government Code Sections 53630 et seq. The Treasurer may waive collateral for the portion of any deposits that is insured pursuant to federal law.
Asset-backed securities GSE	Rating category of at least 'AA' or equivalent or better by a NRSRO.
Supranationals	Rating category of at least 'AA' or equivalent or better by a NRSRO.
CAMP	Rating category of 'AAAm' or its equivalent or better by a NRSRO.
Repurchase agreements	Limited to primary dealers or financial institutions in a rating category of 'A' or its equivalent or better by a NRSRO.
Medium-term corporate notes	Rating category of 'A' or its equivalent or better by a NRSRO.
LAIF	Not applicable.
Money market funds	Highest ranking by not less than two NRSROs or must retain an investment advisor that meets specified requirements.
Municipal bonds	A (long-term) or A-1 (short-term) their equivalent or better by a NRSRO.

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At June 30, 2020 and 2019, Metropolitan's portfolio was invested in the following securities by rating:

(Dollars in thousands)	Rating	June 30,	
		2020	2019
U.S. Treasury securities	N/A ⁽¹⁾	\$ 173,164	\$ 88,340
Federal agency securities	N/A ⁽¹⁾	41,306	82,406
Asset backed securities	AA or higher	42,419	—
Supranationals	AA or higher	38,535	—
Prime commercial paper	A1/P1 ⁽²⁾	74,988	134,176
Medium-term corporate notes	A ^{(2),⁽³⁾}	230,027	277,392
Negotiable certificates of deposit	F1 ⁽²⁾	136,265	230,648
Money market funds	AAA	167,532	241,988
GSE	AAA	58,856	64,022
Municipal bonds	A ⁽²⁾	3,524	2,111
CAMP	AAAm	210,343	—
LAIF	N/A ⁽⁴⁾	75,000	65,000
Total portfolio		\$ 1,251,959	\$ 1,186,083

⁽¹⁾Credit ratings are not applicable to obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.

⁽²⁾A (long-term) or A-1 (short-term) or better e.g. F1+, A1+, AA, or AAA.

⁽³⁾In March 2020, Daimler Finance and Delta Airlines securities were downgraded by S&P from A- to BBB+ and A- to BBB-, respectively.

Management had determined to hold both securities to maturity.

⁽⁴⁾LAIF is not rated.

Concentration of credit risk. In accordance with Metropolitan's investment policy, the minimum requirements for limiting concentration of credit risk defined the maximum percent allowable for investment in each security type as well as the percent allowable for investment by issuer per type. Generally, the maximum allowable for investment by security type varied from 20 percent, for CAMP, money market funds and repurchase agreements, to 100 percent for GSE, U.S. Treasury and federal agency securities. The percentages of investments that can be purchased by a single issuer, within each security type, ranged from 5 percent, for asset-backed securities, to 10 percent for bankers' acceptances.

The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of June 30, 2020 and 2019.

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	Investment Policy Limits	Percent of Portfolio	
		2020	2019
U.S. Treasury securities	100%	14 %	8 %
Federal agency securities	100%	3 %	7 %
Asset backed securities	20%	4 %	— %
Supranationals	30%	3 %	— %
Prime commercial paper	25%	6 %	11 %
Medium-term corporate notes	30%	18 %	23 %
Negotiable certificates of deposit	30%	11 %	20 %
Money market funds	20%	13 %	20 %
GSE	20% ⁽¹⁾	5 %	5 %
Municipal bonds	30%	— %	— %
CAMP	20%	17 %	— %
LAIF	N/A	6 %	6 %
Total portfolio		100 %	100 %

⁽¹⁾*Mortgage-backed securities included in GSE are limited to 100% of the investment portfolio in accordance with Metropolitan's investment policy.*

At June 30, 2020 and 2019, Metropolitan had the following investments (obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government not listed) representing five percent or more of its investments:

(Dollars in thousands)	2020	
LAIF	\$ 75,000	5.99 %
Dreyfus Gov't Cash Management ⁽¹⁾	\$ 165,511	13.22 %
CAMP	\$ 210,343	16.80 %

⁽¹⁾*Invested in Money market funds*

(Dollars in thousands)	2019	
LAIF	\$ 65,000	5.48 %
Federal National Mortgage Association ⁽¹⁾	\$ 60,064	5.06 %

⁽¹⁾*Invested in Federal agency securities*

Custodial credit risk. At June 30, 2020 and 2019, Metropolitan's investments were insured, registered or held, in Metropolitan's name, in safekeeping at Metropolitan's bank, which was not a counterparty to the investment transactions. The exceptions were \$210.3 million and \$75.0 million in deposits in the CAMP and LAIF, respectively, as of June 30, 2020 and \$65.0 million in deposits in the LAIF as of June 30, 2019.

CAMP is a program created through a joint powers agency as a pooled short-term portfolio and cash management vehicle for California public agencies under California Government Code Section 53601(p). CAMP is governed by a seven member Board of Trustees comprised of finance directors and treasurers of California public agencies. The total amount invested by all public agencies in CAMP as of June 30, 2020 was \$6.5 billion, of which, 30.3 percent was

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invested in medium-term and short-term notes and asset-backed securities. The average maturity of CAMP investments was 53 days.

The LAIF, created by California statute, is part of a pooled money investment account (PMIA). The LAIF has oversight by the Local Investment Advisory Board, which consists of five members designated by statute. The Chairwoman is the State Treasurer, or her designated representative.

The total amount invested by all public agencies in LAIF as of June 30, 2020 and 2019 was \$32.1 billion and \$24.6 billion, respectively. At June 30, 2020 and 2019, the PMIA had a balance of \$101.0 billion and \$105.7 billion, respectively, of which, 3.37 percent and 1.77 percent were invested in medium-term and short-term notes and asset-backed securities, respectively. The average maturity of the LAIF investments as of June 30, 2020 and 2019, was 191 days and 173 days, respectively.

(c) Reverse Repurchase Agreements

Metropolitan is permitted, subject to conditions imposed by State law, to sell securities owned under written agreements and to buy back the securities on or before a specified date for a specified amount. No such reverse repurchase agreements were entered into during the fiscal years ended June 30, 2020 and 2019.

(d) Restricted Cash and Investments

Metropolitan has established a number of separate accounts, also referred to as funds, to provide for specific activities in accordance with special regulations, bond covenants, and trust arrangements. The accounts are classified as "restricted." Most restricted accounts have the minimum cash and investment balance requirements and all are nondiscretionary in terms of the use of assets. Among other things, the restricted amounts provide for payments of debt service on Metropolitan's bonds; reserves for principal and interest on outstanding bonds; payments for arbitrage tax rebate; construction of capital assets; payment of Metropolitan's operations and maintenance expenses; and payment of the costs related to the closure and postclosure maintenance of Metropolitan's solid waste landfill facility.

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4. PARTICIPATION RIGHTS

Participation rights activity, excluding participation rights in State Water Project, for the fiscal years ended June 30, 2020 and 2019 was as follows:

(Dollars in thousands)	June 30, 2018	Additions
Participation rights:		
Imperial Irrigation District	\$ 112,313	\$ —
Palo Verde Irrigation District	82,804	—
Kern Delta Water District	39,007	—
South County Pipeline	72,371	—
Semitropic Water Storage District	34,699	—
Arvin-Edison Water Storage District	47,187	—
Chino Basin	27,500	—
Orange County	23,000	—
Conjunctive Use Programs	20,608	—
Total	<hr/> 459,489	<hr/> —
Accumulated amortization:		
Imperial Irrigation District	(58,962)	(2,270)
Palo Verde Irrigation District	(31,074)	(2,343)
Kern Delta Water District	(17,287)	(2,172)
South County Pipeline	(23,107)	(912)
Semitropic Water Storage District	(17,911)	(958)
Arvin-Edison Water Storage District	(21,754)	(1,467)
Chino Basin	(13,448)	(1,454)
Orange County	(11,053)	(1,195)
Conjunctive Use Programs	(9,481)	(1,025)
Total	<hr/> (204,077)	<hr/> (13,796)
Participations rights, net	\$ 255,412	\$ (13,796)

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	Reductions		June 30, 2019		Additions		Reductions		June 30, 2020
\$	—	\$	112,313	\$	—	\$	—	\$	112,313
	—		82,804		—		—		82,804
	—		39,007		—		—		39,007
	—		72,371		—		—		72,371
	(440)		34,259		—		—		34,259
	—		47,187		—		—		47,187
	—		27,500		—		—		27,500
	—		23,000		—		—		23,000
	—		20,608		—		—		20,608
	(440)		459,049		—		—		459,049
	—		(61,232)		(2,271)		—		(63,503)
	—		(33,417)		(2,341)		—		(35,758)
	—		(19,459)		(2,172)		—		(21,631)
	—		(24,019)		(913)		—		(24,932)
	—		(18,869)		(943)		—		(19,812)
	—		(23,221)		(1,468)		—		(24,689)
	—		(14,902)		(1,453)		—		(16,355)
	—		(12,248)		(1,194)		—		(13,442)
	—		(10,506)		(1,025)		—		(11,531)
	—		(217,873)		(13,780)		—		(231,653)
\$	(440)	\$	241,176	\$	(13,780)	\$	—	\$	227,396

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(a) Imperial Irrigation District

In December 1988, Metropolitan and the Imperial Irrigation District (IID) entered into a water conservation agreement that became effective in December 1989. Under the terms of the conservation agreement, Metropolitan paid for capital costs and continues to pay annual costs for specific conservation projects within IID. From 1998 to 2003, Metropolitan diverted from the Colorado River a quantity of water equal to the amount of water conserved by the conservation projects, which totaled between 104.9 TAF and 109.5 TAF annually. Under the October 2003 amendment to an agreement and at the request of the Coachella Valley Water District (CVWD), up to 20.0 TAF of the total conserved volume was made available to CVWD. Under the May 2007 amendment to the agreement and a December 2014 letter agreement, at least 85.0 TAF and 105.0 TAF will be/was available in calendar years 2020 and 2019, respectively (see Note 9c). The water must be used in the calendar year the water is conserved, unless stored in a Colorado River reservoir pursuant to a separate agreement.

As capital projects were completed, the costs contributed by Metropolitan were capitalized as participation rights in Metropolitan's accounting records. The construction phase of this program was completed as of September 30, 1998, and the operation and maintenance phase commenced on October 1, 1998. The October 2003 amendment to the agreement extended the term through December 31, 2041 or 270 days beyond the termination of the Quantification Settlement Agreement plus any extension applicable over the agreement (see Note 9e).

Participation rights for this project totaled \$112.3 million as of June 30, 2020 and 2019, and are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$2.3 million in fiscal years 2020 and 2019.

(b) Palo Verde Irrigation District

In August 2004, Metropolitan entered into an agreement with PVID to implement a 35-year land management and crop rotation program. This fallowing program commenced in January 2005 and will extend through July 2040 and will make available up to 130.0 TAF of water in certain years for transfer to Metropolitan from PVID.

Under the terms of the agreement, Metropolitan paid for all program start-up costs that have been capitalized as participation rights. These costs included sign-up payments to individual landowners, funding for a community improvement program and program setup costs.

Participation rights for this program totaled \$82.8 million as of June 30, 2020 and 2019, and are being amortized using the straight-line method over 35 years. Amortization expense totaled \$2.3 million in fiscal years 2020 and 2019.

(c) Kern Delta Water District

Metropolitan entered into an agreement with the Kern Delta Water District for the development of a water management program. The agreement includes a Regulation Program and a Transportation Program. Under the terms of the Regulation Program, Kern Delta will regulate the storage and delivery for Metropolitan of up to 250.0 TAF of water and has 183.3 TAF in the program as of June 30, 2020. The program is intended to provide a minimum recharge and return capability of 50.0 TAF annually. Construction of infrastructure is required in order to meet the program's dry year minimum return. The transportation program provides Metropolitan with priority rights to convey water acquired by Metropolitan from third parties through the Kern-Delta facilities to the

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California Aqueduct for ultimate delivery to Metropolitan. This program terminates on December 31, 2029. The facilities became operational in June 2010.

Participation rights for the Kern Delta totaled \$39.0 million as of June 30, 2020 and 2019, and are being amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$2.2 million in fiscal years 2020 and 2019.

(d) South County Pipeline

In 1989, Metropolitan entered into an agreement with two member agencies and one of their subagencies to participate in the construction of an upsized version of a 26-mile long pipeline serving the south Orange County portion of its service area. Participation in this project provides Metropolitan capacity to transport its water in the central part of its service area.

Participation rights for this project totaled \$72.4 million as of June 30, 2020 and 2019. These participation rights are amortized using the straight-line method over 80 years, which is the life of the agreement. Amortization expense totaled \$0.9 million in fiscal years 2020 and 2019.

(e) Semitropic Water Storage District

In December 1994, Metropolitan entered into a water banking and exchange program with Semitropic Water Storage District and its improvement districts that entitles it to storage, withdrawal, and exchange rights for its SWP supplies. The agreement terminates in November 2035.

In 1999, Metropolitan became fully vested for 35 percent of the one million acre-foot banking project. Metropolitan has a storage allocation of 350.0 TAF and currently has 260.6 TAF in the program as of June 30, 2020. Metropolitan is entitled to a minimum of 31.5 TAF per year of pump back capacity. In addition, assuming a 100 percent SWP allocation, Metropolitan is entitled to a minimum of 46.6 TAF per year of entitlement exchange rights. Finally, Metropolitan has the ability to use other banking partners' rights when they are not being used. As a result, the potential maximum return capability for Metropolitan is estimated at 223.0 TAF per year assuming a 100 percent SWP allocation and usage of the other banking partners' rights. In fiscal year 2015, Metropolitan spent \$5.8 million to increase the return capacity by 13.2 TAF per year. Since then, the additional return capacity has been reduced to 6.7 TAF per year after Metropolitan received reimbursement of \$2.9 million.

Participation rights for this program totaled \$34.3 million as of June 30, 2020 and 2019. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$0.9 million and \$1.0 million in fiscal years 2020 and 2019, respectively.

(f) Arvin-Edison Water Storage District

In December 1997, Metropolitan entered into an agreement for a water management program with Arvin-Edison Water Storage District (Arvin-Edison). The agreement includes a regulation program, a transportation program, and a water quality exchange program. Under the terms of the regulation program, Arvin-Edison will regulate the storage and delivery for Metropolitan of up to 350.0 TAF of water and currently has 142.3 TAF in the program at June 30, 2020. The minimum estimated return capability for the Arvin-Edison program varies from 40.0 TAF per

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year to 75.0 TAF per year depending on hydrologic/groundwater conditions. Return water will be delivered to Metropolitan upon request through a new intertie pipeline to the California Aqueduct and by exchange of existing Arvin-Edison supplies in the California Aqueduct. In 2008, Metropolitan amended the agreement to construct the south canal improvement project that will improve the operational flexibility of the program as well as increase the ability to return high quality water to the California Aqueduct. The project was completed in early 2009. The agreement terminates on November 4, 2035 with provisions for automatic extension if all stored water has not been returned.

The agreement also provides a transportation program whereby Metropolitan is provided priority rights to convey water acquired by Metropolitan from third parties through the Arvin-Edison facilities to the California Aqueduct for ultimate delivery to Metropolitan.

Participation rights for the Arvin-Edison program totaled \$47.2 million as of June 30, 2020 and 2019. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$1.5 million in fiscal years 2020 and 2019.

(g) Chino Basin

In June 2003, Metropolitan entered into a groundwater storage agreement with Inland Empire Utilities Agency, Three Valleys Municipal Water District, and the Chino Basin Watermaster. Under the terms of the agreement, Metropolitan may store up to 25.0 TAF per year to a maximum of 100.0 TAF and may withdraw up to 33.0 TAF per year for overlying demand during dry, drought, or emergency conditions. The facilities became operational during fiscal year 2009. As of June 2020, Metropolitan had 45.9 TAF water in storage. The agreement terminates on March 1, 2028, unless the parties agree to extend for an additional maximum period of 25 years.

Participation rights in the Chino basin groundwater storage program totaled \$27.5 million as of June 30, 2020 and 2019. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$1.5 million in fiscal years 2020 and 2019.

(h) Orange County

In 2003, Metropolitan entered into a groundwater storage agreement with the Orange County Water District and the Municipal Water District of Orange County to allow Metropolitan to store 66.0 TAF in the Orange County Basin. Metropolitan may store up to 16.5 TAF per year and withdraw up to 22.0 TAF for overlying demand during dry, drought, or emergency conditions. The facilities became operational during fiscal year 2009. At June 30, 2020, Metropolitan had no water in storage. The program included the construction of wells and barrier improvements for protection of groundwater supplies from seawater intrusion. The agreement terminates in June 2028, unless the parties agree to extend for an additional maximum period of 25 years.

Participation rights in the Orange County groundwater storage program totaled \$23.0 million as of June 30, 2020 and 2019. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$1.2 million in fiscal years 2020 and 2019.

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(i) Conjunctive Use Programs

Conjunctive use is the operation of a groundwater basin in coordination with a surface water system to increase total water supply availability, thus improving the overall reliability of supplies. Metropolitan has entered into seven agreements with its member agencies for conjunctive use programs whereby Metropolitan provides funding for construction of water storage and related facilities in exchange for water storage and withdrawal rights. The conjunctive use programs were funded with State Proposition 13 grant dollars. The seven projects are with Long Beach, Long Beach-Lakewood, Compton, Three Valleys, Three Valleys MWD-La Verne, Foothill MWD, and Western MWD-Elsinore Valley MWD. Collectively, these seven projects allow Metropolitan to store up to 45.9 TAF with storage of 11.5 TAF per year and withdrawal of 15.3 TAF per year for overlying demand during dry, drought, or emergency conditions. As of June 2020, Metropolitan had a total of 11.7 TAF in storage in these seven accounts. The term of each agreement is 25 years, unless the parties agree to extend for an additional maximum period of 25 years. Termination dates range from July 2027 to December 2031. The programs became operational during fiscal year 2009.

Participation rights in these projects totaled \$20.6 million at June 30, 2020 and 2019. These participation rights are amortized using the straight-line method over the remaining lives of the agreements. Amortization expense totaled \$1.0 million in fiscal years 2020 and 2019.

5. SHORT-TERM AND LONG-TERM DEBT

Metropolitan's enabling Act specifies that its indebtedness shall be limited to 15 percent of the assessed value of all taxable property within Metropolitan's service area. Existing outstanding debt of \$4.419 billion and \$4.335 billion at June 30, 2020 and 2019, respectively, represents less than one percent of the June 30, 2020 and 2019 total taxable assessed valuation of \$3,092 billion and \$2,917 billion, respectively.

Metropolitan's long-term debt consists of general obligation and revenue bond issues as well as other obligations. The general obligation bonds are secured by Metropolitan's authority to levy ad valorem property taxes. The revenue bond obligations are special limited obligations of Metropolitan and are secured by a pledge of Metropolitan's net operating revenues. Such obligations contain certain restrictive covenants, with which Metropolitan has complied. Substantially all of the bond issues contain call provisions. Substantially all of the debt proceeds have been, and are expected to continue to be, utilized to fund new facilities, improvements and betterments, and to refund outstanding bonds.

(a) Commercial Paper and Revolving Notes

Metropolitan may issue up to \$200.0 million in commercial paper to fund a portion of its capital investment plan, as approved by Metropolitan's Board. There was no commercial paper issued in fiscal years 2020 and 2019 and no commercial paper was outstanding at June 30, 2020 and 2019. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds and revolving notes (see Notes 5c and 5g).

Short-term note issued during the fiscal year ended June 30, 2020 was as follows:

- On June 30, 2020, Metropolitan issued certain notes evidencing a draw of \$35.6 million from the RBC Short Term Credit Facility for the purpose of refunding a portion of Metropolitan's then outstanding subordinate lien bonds.

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There was no short-term note issued during the fiscal year ended June 30, 2019.

A total of \$35.6 million short-term revolving notes were outstanding at June 30, 2020. No short-term revolving notes were outstanding at June 30, 2019.

Long-term note issued during the fiscal year ended June 30, 2020 was as follows:

- On October 1, 2019, Metropolitan issued a \$100.0 million note under the RBC Short-Term Revolving Credit Facility (RBC Note), at a rate equal to the SIFMA Index plus 33 basis points. On February 11, 2020, the RBC Note was repaid with proceeds from the issuance of the Water Revenue Refunding Bonds, Series 2020 A.

Long-term note issued during the fiscal year ended June 30, 2019 was as follows:

- On August 1, 2018, Metropolitan entered into a Note Purchase and Continuing Covenant Agreement with Bank of America N.A. (BANA, and the 2018 BANA Agreement), for the purchase by BANA and sale by Metropolitan of up to \$86.0 million of Metropolitan's Short-Term Revenue Certificates, 2018 Series A (the Series 2018 Notes). Proceeds were used to provide advances or contributions of money to pay for costs related to the California WaterFix. The Series 2018 Notes will bear interest at a variable rate of interest, at a spread of 32 basis points to one-month LIBOR. Under the 2018 BANA Agreement, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, BANA could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the 2018 BANA Agreement as a Subordinate Lien Parity Obligation.

A total of \$46.8 million of long-term revolving notes were outstanding at June 30, 2020 and 2019.

(b) General Obligation Bonds

In 1966, voters authorized Metropolitan to incur up to \$850.0 million of general obligation bond indebtedness to finance a portion of Metropolitan's capital investment plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled \$850.0 million. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of \$37.3 million and \$48.1 million in general obligation refunding bonds were outstanding at June 30, 2020 and 2019, respectively.

The general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates ranging from 3.5 percent to 5.0 percent. The term bonds are subject to mandatory redemption prior to maturity. All general obligation bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on interest payment dates, and subject to early redemption.

No general obligation bonds were issued during the fiscal years ended June 30, 2020 and 2019.

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(c) Revenue Bonds

Pursuant to a 1974 voter authorization, additional funds, primarily for funding the capital investment plan, are obtained through the sale of water revenue bonds. Revenue bonds may be issued subject to certain conditions, including a requirement that the total of revenue bonds outstanding does not exceed the equity (net position) of Metropolitan as of the fiscal year end prior to such issuance. Metropolitan has refunded some of these revenue bonds through the issuance of refunding bonds. A total of \$3.969 billion and \$3.933 billion of revenue bonds and revenue refunding bonds were outstanding at June 30, 2020 and 2019, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through July 2045 at interest rates ranging from 1.04 percent to 6.95 percent. The term bonds are subject to mandatory redemption prior to maturity. Substantially all revenue bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on any interest payment dates, and subject to early redemption.

Revenue bond issued during the fiscal year ended June 30, 2020 was as follows:

- On February 11, 2020, Metropolitan issued \$207.3 million of Water Revenue Bonds, 2020 Series A, at a true interest cost of 3.05 percent, to prepay a \$100.0 million note drawn under the RBC Short-Term Credit Facility, and to fund a portion of the capital investment plan and costs of issuance. The maturities extend to October 1, 2049 and are subject to mandatory and optional provisions.

There were no revenue bonds issued during the fiscal year ended June 30, 2019.

(d) Bond Refundings and Defeasances

Metropolitan has issued Waterworks General Obligation Refunding Bonds, Water Revenue Refunding Bonds, Special Variable Rate Water Revenue Refunding Bonds, and short-term notes to refund various issues of Waterworks General Obligation Bonds, Waterworks General Obligation Refunding Bonds, Water Revenue Bonds, Water Revenue Refunding Bonds, Special Variable Rate Water Revenue Refunding Bonds, and revolving notes previously issued. The net proceeds from these sales were used to redeem the refunded bonds and fund certain swap termination payments or to purchase U.S. Treasury securities that were deposited in irrevocable escrow trust accounts with a bank acting as an independent fiscal agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered defeased and the related liabilities have been excluded from Metropolitan's basic financial statements.

Refunding and defeasance transactions during fiscal year 2020 were as follows:

- On April 1, 2020, Metropolitan issued \$152.5 million of Subordinate Water Revenue Refunding Bonds, 2020 Series A. Proceeds were used to refund \$9.9 million of Water Revenue Bonds, 2000 Authorization, Series B-3; \$10.0 million of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D; \$17.3 million of Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D; \$7.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1; \$7.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-2; \$10.4 million of Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1; \$10.4 million of Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-2; \$59.9 million of

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Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-1; \$59.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-2; and, to fund issuance costs. The Subordinate Water Revenue Refunding Bonds, 2020 Series A have a true interest cost of 0.8 percent, mature on July 1, 2029, and are not subject to optional or mandatory redemption provisions.

- On April 3, 2020, Metropolitan entered into a Bond Purchase Agreement, dated as of April 1, 2020, with Wells Fargo Municipal Capital Strategies, LLC, for the purchase of Metropolitan's \$271.8 million Special Variable Rate Water Revenue Refunding Bonds, 2020 Series B (SVRWRRB 2020 Series B). Proceeds were used to refund \$77.5 million of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D; \$21.2 million of Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D; \$86.6 million of Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1; and, \$86.6 million of Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-2. The SVRWRRB 2020 Series B were issued in a Long Mode under the 2020B Paying Agent Agreement and bear interest at a Long Rate equal to 1.04 percent per annum for the initial Long Period ending on April 2, 2021. The 2020B Senior Revenue Bonds are subject to mandatory tender for purchase on April 2, 2021 the last day of the Long Period. The SVRWRRB 2020 Series B were designated as Self-Liquidity Bonds pursuant to the 2020B Paying Agent Agreement and no standby bond purchase agreement or other liquidity facility is in effect for the purchase of such bonds.

Refunding and defeasance transactions during fiscal year 2019 were as follows:

- On January 28, 2019, Metropolitan sold \$16.8 million of Waterworks General Obligation Refunding Bonds, 2019 Series A, to refund \$20.9 million, Waterworks General Obligation Refunding Bonds, 2009 Series A. The maturities extend to March 1, 2028 and are not subject to redemption provisions prior to maturity.
- On December 20, 2018, Metropolitan issued \$137.5 million of Water Revenue Refunding Bonds, 2018 Series B, to refund \$169.8 million of Water Revenue Bonds, 2008 Authorization, Series A. The maturity extends to January 1, 2039 and is subject to optional redemption provisions.
- On June 6, 2019, Metropolitan sold \$218.1 million of Water Revenue Refunding Bonds, 2019 Series A to refund \$5.4 million of Water Revenue Bonds, 2008 Authorization, Series B, \$18.7 million of Water Revenue Bonds, 2008 Authorization, Series C, \$29.6 million of Water Revenue Bonds, 2008 Authorization, Series D, \$106.7 million of Water Revenue Refunding Bonds, 2009 Series B, \$91.2 million of Water Revenue Refunding Bonds, 2009 Series C, \$31.0 million of Water Revenue Refunding Bonds, 2009 Series D, \$6.6 million of Water Revenue Refunding Bonds, 2009 Series E, and \$13.0 million of Water Revenue Refunding Bonds, 2014 Series C-1. The maturities extends to July 1, 2039 and are subject to optional redemption provisions.
- On June 27, 2019, Metropolitan issued \$241.5 million of Subordinate Water Revenue Refunding Bonds, 2019 Series A to refund \$59.7 million of Water Revenue Bonds, 2008 Authorization, Series C, \$220.4 million of Water Revenue Bonds, 2008 Authorization, Series D, and \$11.6 million of Water Revenue Refunding Bonds, 2014 Series G-4. The maturities extend to July 1, 2029, and are not subject to redemption provisions prior to maturity.

These refundings and defeasances were accomplished to take advantage of lower interest rates, to realize economic savings or to eliminate or mitigate certain risks associated with managing its variable rate debt. The transactions resulted in cash flow savings of \$9.2 million and \$182.0 million and economic gains (difference between the present

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values of the debt service payments on the old debt and new debt) of \$8.6 million and \$165.2 million for fiscal years 2020 and 2019, respectively. The net carrying amount of the old debt was equal to the reacquisition price in fiscal year 2020 and in fiscal year 2019, the carrying amount of the old debt exceeded the reacquisition price by \$7.7 million, which is deferred and amortized over the original remaining life of the old debt or the life of the new debt, whichever is less. Deferred outflows of loss on bond refundings at June 30, 2020 and 2019 were \$19.6 million and \$24.6 million, respectively, and the deferred outflows on swap terminations for the same periods were \$19.0 million and \$18.5 million, respectively.

(e) Interest Rate Swaps

Metropolitan has eight outstanding interest rate swap agreements as of June 30, 2020. These agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates which are Metropolitan's hedging derivative instruments.

Metropolitan's interest rate swap portfolio as of June 30, 2020, 2019, and 2018 are summarized on the following table.

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Associated Bond Issue ⁽¹⁾		Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Counterparty Credit Rating ⁽²⁾
2002 A Payor	\$	75,838	09/12/02	3.300 %	57.74% of 1MoLIBOR ⁽⁴⁾	A3/BBB+/A
2002 B Payor		28,372	09/12/02	3.300 %	57.74% of 1MoLIBOR	Aa2/A+/AA
2003 Payor C-1 C-3		158,597	12/18/03	3.257 %	61.20% of 1MoLIBOR	Aa2/A+/AA-
2003 Payor C-1 C-3		158,597	12/18/03	3.257 %	61.20% of 1MoLIBOR	Aa2/A+/AA
2004 C Payor		7,760	11/16/04	2.980 %	61.55% of 1MoLIBOR	A3/BBB+/A
2004 C Payor		6,350	11/16/04	2.980 %	61.55% of 1MoLIBOR	A3/BBB+/A
2005 Payor		29,058	07/06/05	3.360 %	70.00% of 1MoLIBOR	Aa2/A+/AA
2005 Payor		29,058	07/06/05	3.360 %	70.00% of 1MoLIBOR	A3/BBB+/A
Total swaps	\$	493,630				

⁽¹⁾These swaps lock in a fixed rate for an equivalent amount of variable rate debt.

⁽²⁾Credit Ratings - Moody's Investors Service, Standard & Poor's Global, Fitch Ratings, respectively.

⁽³⁾Excludes accrued interest.

⁽⁴⁾London Interbank Offered Rate.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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June 30, 2020 and 2019

Swap Termination	Fair Value as of 6/30 ⁽³⁾			Change in Fair Value in FY	
	2020	2019	2018	2020	2019
07/01/25	\$ (5,158)	\$ (5,317)	\$ (4,977)	\$ 159	\$ (340)
07/01/25	(1,929)	(1,989)	(1,863)	60	(126)
07/01/30	(23,890)	(19,448)	(15,259)	(4,442)	(4,189)
07/01/30	(23,890)	(19,449)	(15,260)	(4,441)	(4,189)
10/01/29	(1,189)	(897)	(658)	(292)	(239)
10/01/29	(973)	(734)	(538)	(239)	(196)
07/01/30	(5,791)	(4,220)	(2,928)	(1,571)	(1,292)
07/01/30	(5,791)	(4,220)	(2,928)	(1,571)	(1,292)
	\$ (68,611)	\$ (56,274)	\$ (44,411)	\$ (12,337)	\$ (11,863)

As with its investments, Metropolitan categorizes its liabilities using fair value measurements within the fair value hierarchy established by U.S. GAAP and are discussed in Note 3.

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Metropolitan has the following recurring fair value measurements as of June 30, 2020 and 2019:

(Dollars in thousands)

Associated Bond Issue	6/30/2020	Fair Value Measurements Using			
		Significant Other Observable Inputs (Level 2)		6/30/2019	Significant Other Observable Inputs (Level 2)
2002 A Payor	\$ (5,158)	\$ (5,158)	\$ (5,317)	\$ (5,317)	
2002 B Payor	(1,929)	(1,929)	(1,989)	(1,989)	
2003 Payor C-1 C-3	(23,890)	(23,890)	(19,448)	(19,448)	
2003 Payor C-1 C-3	(23,890)	(23,890)	(19,449)	(19,449)	
2004 C Payor	(1,189)	(1,189)	(897)	(897)	
2004 C Payor	(973)	(973)	(734)	(734)	
2005 Payor	(5,791)	(5,791)	(4,220)	(4,220)	
2005 Payor	(5,791)	(5,791)	(4,220)	(4,220)	
Total swaps	\$ (68,611)	\$ (68,611)	\$ (56,274)	\$ (56,274)	

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using an income approach that considers benchmark interest rates, yield curves, and credit spreads.

Pay-Fixed, Receive-Variable

Objective of the Swaps: In order to take advantage of low interest rates in the marketplace, Metropolitan entered into eight separate pay-fixed, receive-variable interest rate swaps at costs that were less than what Metropolitan otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

Terms: The notional amounts of the swaps match the principal amounts of the associated debt in total. Metropolitan's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated long-term debt.

Fair Values: At June 30, 2020, all pay-fixed, receive-variable swaps had a negative fair value. Because the coupons on Metropolitan's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes. The fair values of the swaps were estimated using the zero-coupon method and exclude accrued interest. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

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Credit Risks: As of June 30, 2020, Metropolitan was not exposed to credit risk on the outstanding pay-fixed, receive-variable swaps that had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Metropolitan would be exposed to credit risk to each swap counterparty in the amount of the derivatives' fair value. Should the counterparties to the transactions fail to perform according to the terms of the swap contract, Metropolitan would face a maximum possible loss equal to the fair value of these swaps.

All swap agreements contain specific collateral requirements that are in effect for Metropolitan and the counterparties. The swaps require different collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are also reduced as the credit ratings are reduced. Collateral on all swaps is to be in the form of U.S. government securities that may be held by the party posting the collateral. Metropolitan had no posted collateral as of June 30, 2020.

Each swap contains cross-default provisions that allow the nondefaulting party to accelerate and terminate all outstanding transactions and to net the transactions' fair values into a single sum to be owed by, or owed to, the nondefaulting party.

As of June 30, 2020, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of \$216.0 million or 43.8 percent of the notional amount of Metropolitan's outstanding pay-fixed, receive-variable swap transactions. This counterparty is rated Aa2/A+/AA by Moody's, Standard & Poor's Global, and Fitch Ratings, respectively.

Basis Risk: The interest rates on Metropolitan's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties on pay-fixed, receive-variable interest rate swaps. To the extent these variable payments differ, Metropolitan is exposed to basis risk. When the rates received from the counterparties are less than the rates on variable rate bonds associated with the respective swap transactions there is a basis loss. When the rates received from the counterparties are greater than the rates on variable rate bonds associated with the respective swap transactions there is a basis gain. As of June 30, 2020, the interest rates of the variable rate debt associated with these swap transactions range from .07 percent to .48 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from .09 percent to .21 percent.

Termination Risk: Metropolitan may terminate any of the swaps if the other party fails to perform under the terms of the swap agreements. If any of the swaps are terminated, the associated variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, Metropolitan would be liable to the counterparty for a payment equal to the swap's fair value.

Tax Risk: As with other forms of variable rate exposure and the relationship between the taxable and tax-exempt markets, Metropolitan is exposed to tax risk should tax-exempt interest rates on variable rate debt issued in conjunction with the swaps rise faster than taxable interest rates received by the swap counterparties, due particularly to reduced federal or state income tax rates, over the term of the swap agreement.

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(f) Swap Payments and Associated Debt

Using rates as of June 30, 2020, debt service requirements on Metropolitan's swap-related variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

(Dollars in thousands)	Variable Rate Bonds		Interest Rate Swaps, Net		Total
	Principal	Interest			
Year ending June 30:					
2021	\$ 54,965	\$ 1,300	\$ 14,498	\$ 70,763	
2022	32,715	1,167	13,012	46,894	
2023	33,260	1,080	12,048	46,388	
2024	34,630	983	10,959	46,572	
2025	65,190	807	8,981	74,978	
2026-2030	242,035	1,473	16,321	259,829	
2031-2032	30,835	7	81	30,923	
Total	\$ 493,630	\$ 6,817	\$ 75,900	\$ 576,347	

(g) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from .07 percent to .48 percent as of June 30, 2020 and 1.45 percent to 2.72 percent as of June 30, 2019. Metropolitan can elect to change the interest rate period of the bonds with certain limitations.

Metropolitan has entered into standby bond purchase agreements (SBPA) with commercial banks to provide liquidity for six separate variable rate bond issues listed in the table below. Bondholders have the right to tender such variable rate bonds to the paying agent on any business day with same day notice. In the event that tendered bonds are not remarketed, the paying agent will draw on the SBPA to pay such bondholders. The draw on the SBPA creates a new debt obligation between Metropolitan and the Bank, called a Bank Bond.

The Bank Bonds that would be issued under the SBPA would initially bear interest at a per annum interest rate equal to, depending on the applicable SBPA, a Base Rate of either: (a) the highest of the (i) Prime Rate plus one percent, (ii) Federal Funds Rate plus two percent, and (iii) seven percent; or (b) the highest of the (i) Prime Rate, (ii) Federal Funds Rate plus one half of one percent, and (iii) seven and one half percent (with the Base Rate increasing in the case of each of (i), (ii) and (iii) of this clause (b) after 90 days, by one percent). To the extent such bank bonds have not been remarketed or otherwise retired as of the earlier of the 90th day following the draw on the SBPA or the stated expiration date of the related SBPA, Metropolitan's obligation to repay the principal of the Bank Bonds would be payable in semi-annual installments over a period of approximately three or five years, depending on the applicable SBPA. Metropolitan has secured its obligation to repay principal and interest under the SBPAs as a senior lien obligation.

In addition, such bonds are subject to mandatory tender for purchase under certain circumstances, including upon the expiration of the SBPA. Metropolitan intends to either renew the facility or exercise its right to remarket the debt as a long-term financing. The portion that would be due in the next fiscal year in the event that the outstanding

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variable rate bonds were tendered and purchased by the commercial banks under the standby agreements was \$34.8 million and \$45.4 million at June 30, 2020 and 2019, respectively.

Metropolitan has the following six variable rate bonds that are supported by a SBPA as of June 30, 2020 and 2019:

(Dollars in thousands)

Bond Issue	Amount		Expiration Date	Interest Rate	Current Amount	
	6/30/20	6/30/19			2020	2019
Water Revenue Bonds						
2000 Series B-3	\$ 78,900	\$ 88,800	3/20/23	Reset Daily	\$ —	\$ 88,800
2017 Series A	80,000	80,000	3/20/23	Reset Daily	—	80,000
Water Revenue Refunding Bonds						
2018 Series A-1, A-2	90,070	210,040	6/25/21	Reset Daily	90,070	—
2016 Series B-1, B-2	82,905	103,670	7/19/21	Reset Daily	—	—
Total	\$ 331,875	\$ 482,510			\$ 90,070	\$ 168,800

Metropolitan has the following four and eight variable rate bonds that are not supported by a SBPA as of June 30, 2020 and 2019, respectively:

(Dollars in thousands)

Bond Issue	6/30/20	6/30/19	Interest Rate
Water Revenue Refunding Bonds			
2013 Series D	\$ —	\$ 87,445	Reset Weekly
2014 Series D	—	38,465	Reset Weekly
2015 Series A-1, A-2	—	188,900	Reset Weekly
Subordinate Water Revenue Bonds			
2016 Series A	175,000	175,000	1M LIBOR plus % spread
2017 Series C	80,000	80,000	SIFMA Index plus % spread
Subordinate Water Revenue Refunding Bonds			
2017 Series D	95,630	95,630	SIFMA Index plus % spread
2017 Series E	95,625	95,625	SIFMA Index plus % spread
Total	\$ 446,255	\$ 761,065	

The Subordinate Water Revenue Bonds, 2016 Series A were issued by Metropolitan through a Continuing Covenant Agreement with BANA (2016 BANA Agreement). The Subordinate 2016 Series A bonds will bear interest at a variable rate at a spread of 32 basis points to one-month LIBOR. The Subordinate 2016 Series A bonds are subject to mandatory tender for purchase on the scheduled mandatory tender date of December 21, 2020, or if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction. A failure by Metropolitan to pay the purchase price of such bonds on the

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mandatory tender date would constitute an event of default under Metropolitan's Subordinate Debt Resolutions if not remedied within five business days. Metropolitan intends to either extend the 2016 BANA Agreement or remarket the bonds in the public debt market prior to the scheduled mandatory tender date. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a Subordinate Lien Parity Obligation.

The current terms of the Subordinate Water Revenue Refunding Bonds, 2017 Series D and Series E (SIFMA Index Mode), and the Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode), require bondholders to tender their bonds for purchase on the scheduled mandatory tender date of June 21, 2021. A failure by Metropolitan to pay the purchase price from the proceeds of remarketing or other funds, for a period of five business days following written notice by any owner of such bonds, will constitute an event of default under Metropolitan's Subordinate Debt Resolutions. Upon the occurrence and continuance of such events of default, the owners of 25 percent in aggregate principal amount of the Subordinate Revenue Bonds then outstanding may elect a bondholders' committee to exercise rights and powers of such owners under the Subordinate Debt Resolutions, including the right to declare the entire unpaid principal of the Subordinate Revenue Bonds then outstanding to be immediately due and payable.

As of June 30, 2020 and 2019, Metropolitan had the following variable rate self-liquidity bonds not supported by a SBPA but are supported by a Revolving Credit Agreement (RCA):

(Dollars in thousands)

Bond Issue	Amount		Expiration Date	Interest Rate	Borrowing		
	6/30/20	6/30/19			Amount 6/30/19	Current Amount 6/30/20	6/30/19
Water Revenue Refunding Bonds							
2013 Series D	\$ —	\$ 87,445	6/23/23	Reset Weekly	\$ 87,445	\$ —	\$ —
2014 Series D	—	38,465	6/23/23	Reset Weekly	38,465	—	—
2015 Series A-1, A-2	—	188,900	6/23/23	Reset Weekly	74,090	—	114,810
Total	\$ —	\$ 314,810			\$ 200,000	\$ —	\$ 114,810

As of June 30, 2019, the four series of the variable rate self-liquidity bonds that were not supported by a SBPA had no long-term take out provisions therefore, the entire principal amount of \$314.8 million, could be tendered for purchase upon one week's notice from bondholders. However, on June 25, 2018, Metropolitan entered into a RCA, under which Metropolitan could borrow up to \$200.0 million, to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. Borrowings made by Metropolitan under the RCA initially bear interest at a fluctuating per annum interest rate equal to, at Metropolitan's discretion, either: (a) one month LIBOR plus one and a half percent; or (b) the higher of (i) the Federal Funds Rate plus one half of one percent, and (ii) the Prime Rate (increasing in any case periodically, beginning after 90 days). The RCA permitted repayment of any borrowed principal funds over ten semi-annual installments beginning 180 days after the funds are borrowed. The RCA had a stated expiration date of June 23, 2023. As a result of the RCA, \$114.8 million was reported as current liabilities as of June 30, 2019. On April 3, 2020, the four series of variable rate self-liquidity bonds were refunded and on April 17, 2020, Metropolitan terminated the RCA.

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(h) Long-term Debt Obligation Summary, Net of Long-term Revolving Notes

Interest rates at June 30, 2020 on all outstanding fixed-rate obligations range from 1.04 percent to 6.95 percent. Interest on the variable rate debt is reset either daily or weekly based upon market conditions. Future principal and interest payments in accordance with the debt agreements as of June 30, 2020 are as follows:

(Dollars in thousands)	Principal	Interest	Total
<hr/>			
Year ending June 30:			
2021	\$ 991,630	\$ 148,466	\$ 1,140,096
2022	255,810	136,540	392,350
2023	339,345	125,542	464,887
2024	187,250	112,588	299,838
2025	182,810	100,631	283,441
2026-2030	874,370	389,045	1,263,415
2031-2035	420,110	248,840	668,950
2036-2040	484,240	151,258	635,498
2041-2045	193,365	32,500	225,865
2046-2050	77,215	9,526	86,741
	<hr/> \$ 4,006,145	<hr/> \$ 1,454,936	<hr/> \$ 5,461,081
Unamortized bond discount and premium, net	366,281		
Total debt	<hr/> 4,372,426		
Less current portion	<hr/> (1,039,054)		
Long-term portion of debt	<hr/> \$ 3,333,372		

6. LONG-TERM LIABILITIES

Long-term liability activity for the fiscal years ended June 30, 2020 and 2019 is shown on the following table. Payments on the bonds are made from the restricted debt service funds; other long-term debt and the compensated absences liability will be liquidated primarily with water revenues.

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(Dollars in thousands)	Maturity Dates	Range of Interest Rates	June 30, 2018	Additions
Waterworks general obligation refunding bonds (Note 5b):				
2009 Series A	3/1/19-3/1/28	5.00 %	\$ 20,865	—
2010 Series A	3/1/29-3/1/37	3.50%-5.00%	18,735	—
2014 Series A	3/1/19-3/1/21	5.00 %	21,000	—
2019 Series A	3/1/20-3/1/28	5.00 %	—	16,755
Total general obligation and general obligation refunding bonds			60,600	16,755
Water revenue bonds (Note 5c):				
2000 Series B-3	7/1/29-7/1/35	Variable	88,800	—
2008 Series A	1/1/19-1/1/39	3.25%-5.00%	169,795	—
2008 Series B	7/1/18-7/1/20	3.125%-4.00%	7,905	—
2008 Series C	7/1/26-7/1/39	5.752%-6.250%	78,385	—
2008 Series D	7/1/21-7/1/39	5.906%-6.538%	250,000	—
2010 Series A	7/1/38-7/1/40	6.95 %	250,000	—
2015 Series A	7/1/18-7/1/45	5.00 %	208,255	—
2016 Subordinate Series A	12/21/2020	Variable	175,000	—
2017 Series A	7/1/41-7/1/47	Variable	80,000	—
2017 Subordinate Series C	6/21/2021	Variable	80,000	—
2018 Subordinate Series B	9/1/23-9/1/28	5.00 %	64,345	—
2020 Series A	10/1/30-10/1/49	5.00 %	—	—
Water revenue refunding bonds (Note 5d):				
1993 Series A	7/1/19-7/1/21	5.75 %	49,140	—
2009 Series B	7/1/20-7/1/30	4.00%-5.25%	106,690	—
2009 Series C	7/1/29-7/1/35	5.00 %	91,165	—
2009 Series D	7/1/18-7/1/21	3.25%-5.00%	40,740	—
2009 Series E	7/1/18-7/1/20	4.00%-5.00%	9,730	—
2010 Series B	7/1/18-7/1/28	2.60%-5.00%	69,155	—
2011 Series B	7/1/18-7/1/20	4.00 %	3,885	—
2011 Series C	10/1/18-10/1/36	2.25%-5.00%	138,280	—
2012 Series A	10/1/23-10/1/36	3.25%-5.00%	181,180	—
2012 Series C	7/1/18-7/1/21	3.00%-5.00%	104,930	—
2012 Series F	7/1/18-7/1/28	3.00%-5.00%	59,335	—
2012 Series G	7/1/20-7/1/31	3.00%-5.00%	111,890	—
2013 Series D	7/1/29-7/1/35	Variable	87,445	—
2014 Series A	7/1/18-7/1/21	4.00%-5.00%	95,935	—
2014 Series B	7/1/18	1.49 %	10,575	—
2014 Series C-1-C-3	10/1/19-10/1/21	3.00 %	30,335	—
2014 Series D	7/1/18-7/1/32	Variable	38,465	—
2014 Series E	7/1/21-7/1/24	3.50%-5.00%	86,060	—
2014 Series G-2-G-5	7/1/37	2.00%-3.00%	17,810	—
2015 Series A-1, A-2	7/1/35	Variable	188,900	—
2016 Series A	7/1/28-7/1/37	2.00%-5.00%	239,455	—
2016 Series B-1, B-2	7/1/25-7/1/37	Variable	103,670	—
2017 Subordinate Series A	7/1/20-7/1/27	2.00%-2.50%	238,015	—
2017 Subordinate Series B	8/1/20-8/1/24	3.00%-5.00%	178,220	—
2017 Subordinate Series D	6/21/2021	Variable	95,630	—
2017 Subordinate Series E	6/21/2021	Variable	95,625	—
2018 Series A1, A-2	7/1/19-7/1/37	Variable	210,040	—
2018 Subordinate Series A	7/1/19-7/1/23	5.00 %	99,075	—
2018 Series B	7/1/20-1/1/39	5.00 %	—	137,485
2019 Series A	7/1/30-7/1/39	5.00 %	—	218,090
2019 Subordinate Series A	7/1/20-7/1/29	5.00 %	—	241,530
2020 Subordinate Series A	7/1/23-7/1/29	3.00%-5.00%	—	—
2020 Series B	4/2/2021	1.04 %	—	—
Total water revenue and water revenue refunding bonds			4,233,860	597,105
Other long-term debt (Notes 5a and 5h):				
Revolving notes			—	—
Unamortized bond discount and premiums, net			212,499	146,302
Total long-term debt			4,506,959	806,962
Other long-term liabilities (see table next page)				
Total long-term liabilities			\$ 4,663,856	\$ 859,082

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	Reductions	June 30, 2019	Additions	Reductions	June 30, 2020	Amounts Due Within One Year
\$		\$		\$		\$
	(20,865)	—	—	—	—	—
	—	18,735	—	—	18,735	—
	(8,440)	12,560	—	(8,020)	4,540	(4,540)
	—	16,755	—	(2,730)	14,025	(860)
	(29,305)	48,050	—	(10,750)	37,300	(5,400)
	—	88,800	—	(9,900)	78,900	—
	(169,795)	—	—	—	—	—
	(7,905)	—	—	—	—	—
	(78,385)	—	—	—	—	—
	(250,000)	—	—	—	—	—
	—	250,000	—	—	250,000	—
	(1,990)	206,265	—	(2,145)	204,120	(2,585)
	—	175,000	—	—	175,000	(175,000)
	—	80,000	—	—	80,000	—
	—	80,000	—	—	80,000	(80,000)
	—	64,345	—	—	64,345	—
	—	—	207,355	—	207,355	—
	(27,300)	21,840	—	(9,615)	12,225	(10,185)
	(106,690)	—	—	—	—	—
	(91,165)	—	—	—	—	—
	(40,740)	—	—	—	—	—
	(9,730)	—	—	—	—	—
	(5,355)	63,800	—	(7,795)	56,005	(11,675)
	(1,245)	2,640	—	(1,295)	1,345	(1,345)
	(9,530)	128,750	—	(9,950)	118,800	(100)
	—	181,180	—	—	181,180	—
	(50,135)	54,795	—	(34,960)	19,835	(14,200)
	—	59,335	—	(10,450)	48,885	(11,150)
	—	111,890	—	—	111,890	(22,070)
	—	87,445	—	(87,445)	—	—
	(12,070)	83,865	—	(45,995)	37,870	(33,000)
	(10,575)	—	—	—	—	—
	(13,505)	16,830	—	—	16,830	(14,020)
	—	38,465	—	(38,465)	—	—
	—	86,060	—	—	86,060	—
	(11,605)	6,205	—	—	6,205	—
	—	188,900	—	(188,900)	—	—
	—	239,455	—	—	239,455	—
	—	103,670	—	(20,765)	82,905	—
	—	238,015	—	—	238,015	(5,300)
	—	178,220	—	—	178,220	(35,645)
	—	95,630	—	—	95,630	(95,630)
	—	95,625	—	—	95,625	(95,625)
	—	210,040	—	(119,970)	90,070	(90,070)
	—	99,075	—	(4,400)	94,675	(4,560)
	—	137,485	—	(3,975)	133,510	(4,385)
	—	218,090	—	—	218,090	—
	—	241,530	—	—	241,530	(7,870)
	—	—	152,455	—	152,455	—
	—	—	271,815	—	271,815	(271,815)
	(897,720)	3,933,245	631,625	(596,025)	3,968,845	(986,230)
	—	46,800	100,000	(100,000)	46,800	—
	(51,491)	307,310	104,554	(45,583)	366,281	(47,424)
	(978,516)	4,335,405	836,179	(752,358)	4,419,226	(1,039,054)
	(39,782)	169,235	62,634	(38,405)	193,464	(40,751)
\$	(1,018,298)	\$ 4,504,640	\$ 898,813	\$ (790,763)	\$ 4,612,690	\$ (1,079,805)

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(Dollars in thousands)	June 30, 2018	Additions	Reductions	June 30, 2019	Additions	Reductions	June 30, 2020	Amounts Due Within One Year
Accrued compensated absences	\$ 47,645	\$ 24,929	\$ (24,177)	\$ 48,397	\$ 27,895	\$ (24,011)	\$ 52,281	\$ (24,700)
Customer deposits and trust funds	46,172	9,493	(6,268)	49,397	16,857	(9,493)	56,761	(11,924)
Workers' Compensation and third party claims (Note 14)	13,579	5,835	(6,456)	12,958	5,545	(4,901)	13,602	(4,122)
Fair value of interest rate swaps (Note 5e)	44,411	11,863	—	56,274	12,337	—	68,611	—
Other long-term liabilities	5,090	—	(2,881)	2,209	—	—	2,209	(5)
Total other long-term liabilities	\$ 156,897	\$ 52,120	\$ (39,782)	\$ 169,235	\$ 62,634	\$ (38,405)	\$ 193,464	\$ (40,751)

7. PENSION PLAN

(a) General Information about the Pension Plan

Plan Description

All full-time Metropolitan employees are required to participate in Metropolitan's Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual report. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Employees hired prior to January 1, 2013 (Classic members) with five years of total service are eligible to retire at age 50 with statutorily reduced benefits; employees hired after January 1, 2013 (PEPRA members) with at least five years of credited service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for improved non-industrial disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit.

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Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Metropolitan is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Metropolitan's total employer contributions were \$66.1 million and \$56.5 million for the fiscal years ended June 30, 2020 and 2019, respectively. The employee contribution rate was 6.0 percent of annual pay for PEPRA members for the fiscal years ended June 30, 2020 and 2019, and 7.0 percent of annual pay for Classic members in both years. Metropolitan contributes the full 7.0 percent for Classic members while PEPRA members contribute the full 6.0 percent. At June 30, 2020 and 2019, Metropolitan's pickup of the employee's 7.0 percent share were \$11.5 million and \$11.8 million, respectively. Payments made by Metropolitan to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

The Plans' provisions and benefits in effect at June 30, 2020 and 2019 are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Final average compensation period	12 months	36 months
Sick leave credit	Yes	Yes
Retirement age	50-67	52-67
Monthly benefits as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Cost of living adjustment	2.0 %	2.0 %
Required employee contribution rates		
2020	7.0 %	6.0 %
2019	7.0 %	6.0 %
Required employer contribution rates		
2020	29.972 %	29.972 %
2019	25.971 %	25.971 %

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At June 30, 2018 and 2017, the valuation dates for fiscal years 2020 and 2019, respectively, the following current and former employees were covered by the benefit terms:

	2020	2019
Valuation date	6/30/2018	6/30/2017
Inactive employees (or their beneficiaries) currently receiving benefits	2,203	2,136
Inactive employees entitled to but not yet receiving benefits	925	932
Active members	1,766	1,746
Total	4,894	4,814

(b) Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Metropolitan's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability at June 30, 2020 and 2019 was measured as of June 30, 2019 and 2018, respectively, using an annual actuarial valuation as of June 30, 2018 and 2017, respectively. The actuarial valuations as of June 30, 2018 and 2017 were rolled forward to June 30, 2019 and 2018, respectively, using standard update procedures.

The total pension liabilities for the measurement dates of June 30, 2019 and 2018 were based on the following actuarial methods and assumptions:

Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial assumptions	
Discount rate	7.15% in 2019 and 2018
Inflation	2.50% in 2019 and 2018
Salary increases	Varies by entry age and service
Mortality rate table ^{(1),(2)}	Derived using CalPERS' Membership Data for all Funds
Post-retirement benefit increase	The lesser of contract COLA or 2.50% in 2019 and contract COLA up to 2.00% in 2018, until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter in 2019 and 2018.

⁽¹⁾ For the June 30, 2019 measurement date, the mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

⁽²⁾ For the June 30, 2018 measurement date, the mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016.

All other actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

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Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments of 7.15 percent was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Taking into account historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects long-term expected real rates of return by asset class for the measurement dates of June 30, 2019 and 2018.

Asset Class ⁽¹⁾	Current Target Allocation	Real Return Years 1-10 ⁽²⁾	Real Return Years 11+ ⁽³⁾
Global Equity	50.00 %	4.80 %	5.98 %
Fixed Income	28.00	1.00	2.62
Inflation Assets	—	0.77	1.81
Private Equity	8.00	6.30	7.23
Real Estate	13.00	3.75	4.93
Liquidity	1.00	—	(0.92)
Total	100.00 %		

⁽¹⁾In the CalPERS Comprehensive Annual Financial Report, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

⁽²⁾An expected inflation of 2.0 percent used for this period

⁽³⁾An expected inflation of 2.92 percent used for this period

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2019 and 2018 measurement dates was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at the current member contribution rates and that contributions from employers will be made at a statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.15 percent was applied to all periods of projected benefit payments to determine the total pension liability.

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(c) Changes in the Net Pension Liability

The following tables show the changes in net pension liability recognized over the measurement periods of June 30, 2019 and 2018:

(Dollars in thousands)	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at June 30, 2018 (VD)	\$ 2,376,778	\$ 1,742,741	\$ 634,037
Changes recognized for the measurement period:			
Service cost	35,739	—	35,739
Interest on total pension liability	168,122	—	168,122
Differences between expected and actual experience	16,205	—	16,205
Contribution - Employer	—	56,497	(56,497)
Contribution - Employee	—	15,631	(15,631)
Net investment income	—	114,220	(114,220)
Benefit payments, including refunds of employee contributions	(117,537)	(117,537)	—
Administrative expenses	—	(1,244)	1,244
Other miscellaneous income	—	4	(4)
Net Changes	\$ 102,529	\$ 67,571	\$ 34,958
Balance at June 30, 2019 (MD)	\$ 2,479,307	\$ 1,810,312	\$ 668,995

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(Dollars in thousands)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at June 30, 2017 (VD)	\$ 2,315,248	\$ 1,654,331	\$ 660,917
Changes recognized for the measurement period:			
Service cost	33,583	—	33,583
Interest on total pension liability	161,023	—	161,023
Differences between expected and actual experience	(10,039)	—	(10,039)
Changes of assumptions	(15,391)	—	(15,391)
Net plan to plan resources movement	—	(4)	4
Contribution - Employer	—	48,780	(48,780)
Contribution - Employee	—	15,749	(15,749)
Net investment income	—	139,003	(139,003)
Benefit payments, including refunds of employee contributions	(107,646)	(107,646)	—
Administrative expenses	—	(2,577)	2,577
Other miscellaneous expense ⁽¹⁾	—	(4,895)	4,895
Net Changes	\$ 61,530	\$ 88,410	\$ (26,880)
Balance at June 30, 2018 (MD)	\$ 2,376,778	\$ 1,742,741	\$ 634,037

⁽¹⁾During Fiscal Year 2017-18, as a result of GASB 75, CalPERS reported its proportionate share of activity related to post-employment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75. Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB 68.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the June 30, 2019 and 2018 measurement dates, calculated using the discount rate of 7.15 percent for both years. The table also shows what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

(Dollars in thousands)	2020	2019
Discount Rate -1%	6.15 %	6.15 %
Net Pension Liability	\$ 975,970	\$ 931,668
Current Discount Rate	7.15 %	7.15 %
Net Pension Liability	\$ 668,995	\$ 634,037
Discount Rate +1%	8.15 %	8.15 %
Net Pension Liability	\$ 412,124	\$ 384,526

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Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS GASB 68 Accounting Report for Metropolitan.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

The EARSL for the Plan for the period ending June 30, 2019 measurement date is 3.3 years, which was obtained by dividing the total service years of 16,107 (the sum of remaining service lifetimes of the active employees) by 4,894 (the total number of participants: active, inactive, and retired). The EARSL for the Plan for the June 30, 2018 measurement date is 3.2 years, which was calculated by dividing the total service years of 15,612 by the total number of participants of 4,814. Inactive employees and retirees have remaining service lifetimes equal to zero and total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

(d) Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the years ended June 30, 2020 and 2019, Metropolitan recognized pension expense of \$119.8 million and \$84.8 million, respectively. At June 30, 2020 and 2019, Metropolitan has deferred outflows and inflows of resources related to pensions as follows:

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(Dollars in thousands)	Deferred Outflows of Resources Outflows		Deferred Inflows of Resources Inflows	
	2020	2019	2020	2019
Pension contributions subsequent to measurement date	\$ 66,091	\$ 56,497	\$ —	\$ —
Differences between expected and actual experience	11,294	—	(4,752)	(13,625)
Changes of assumptions	7,858	47,150	(5,772)	(10,581)
Net difference between projected and actual earnings on pension plan investments	—	3,288	(10,774)	—
Total	\$ 85,243	\$ 106,935	\$ (21,298)	\$ (24,206)

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal years ended June 30, 2020 and 2019. At June 30, 2020 and 2019, the deferred outflows of resources related to contributions subsequent to the measurement date of \$66.1 million and \$56.5 million, respectively, will be/was recognized as a reduction of the net pension liability in the fiscal years ending/ended June 30, 2021 and 2020, respectively.

The net difference between projected and actual earnings on pension plan investments, differences between expected and actual experience, and changes of assumptions will be recognized in future pension expense as follows:

(Dollars in thousands)	Deferred Outflows / (Inflows) of Resources	
	Fiscal year ending June 30,	
2021	\$ 9,932	
2022	(12,392)	
2023	(1,386)	
2024	1,700	

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8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) Plan Description and Benefits Provided

Through CalPERS, Metropolitan offers medical insurance to active and retired employees, as well as their qualified dependents under the Public Employees' Medical and Hospital Care Act (PEMHCA). Under PEMHCA, health coverage for the employee continues into retirement. Current plans offered are PERS Care PPO, PERS Choice PPO, PERS Select PPO, Blue Shield HMO, and Kaiser HMO. Metropolitan participates in the CERBT Fund, which is an agent multiple-employer plan available to employers to pre-fund OPEB benefits. Benefit provisions are established through negotiations between Metropolitan and its various bargaining units, which also apply to retirees. For employees hired on or after January 1, 2012, retirees must have a minimum of 10 years of PERS service and no less than five years of Metropolitan service in order to receive post-employment health benefits in accordance with PERS as per Government Code Section 22893. For employees hired prior to January 1, 2012, retirees are not required to meet the eligibility criteria. This benefit was provided to 1,976 and 1,898 retired Metropolitan employees at June 30, 2020 and 2019, respectively. CalPERS issues a separate comprehensive annual report that includes financial statements for its CERBT Fund. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

(b) Funding Policy and Contributions

Contribution requirements are established by Memorandum of Understandings negotiated between Metropolitan and its various bargaining units. During fiscal years 2020 and 2019, Metropolitan contributed up to 100 percent of Blue Shield Access + HMO Bay area regional basic plan rate for represented retirees and up to 90 percent of the PERS Care PPO Los Angeles regional basic plan rate for unrepresented retirees. During fiscal years 2020 and 2019, Metropolitan contributed the full actuarially determined contribution rate of 13.8 percent or \$28.1 million and \$27.3 million, respectively. Employees are not required to contribute to the plan.

(c) Employees Covered

At June 30, 2019 and 2018, the measurement dates for fiscal years 2020 and 2019, respectively, the following current and former employees were covered by the benefit terms:

	2020	2019
Measurement Date	6/30/2019	6/30/2018
Inactives employees (or their beneficiaries) currently receiving benefits	1,759	1,569
Inactive employees entitled to but not yet receiving benefits	139	137
Active members	1,820	1,698
Total	3,718	3,404

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(d) Actuarial Assumptions Used to Determine Total OPEB Liability

The total OPEB liability used to calculate the net OPEB liability as of June 30, 2020 and 2019 was measured as of June 30, 2019 and 2018, respectively using an actuarial valuation as of June 30, 2019 and 2017, respectively. The actuarial valuation as of June 30, 2017 was rolled forward to the June 30, 2018 measurement date, using standard updated procedures. The June 30, 2019 and 2017 actuarial valuations were based on the following actuarial methods and assumptions:

Actuarial cost method	Entry age normal cost	
Actuarial assumptions		
Funding policy	Metropolitan pre-funds full ADC	
Discount rate	6.75%	
Long-term expected rate of return on assets	6.75%	
General inflation	2.75% per annum	
Crossover test assumptions	Employer contributes full ADC Administrative expenses = .05% of assets	
Salary increases	3.0% per annum	
Mortality, disability, termination, retirement ^(l)	Derived using CalPERS Membership Data	
Mortality improvement	Mortality projected fully generational with Society of Actuaries mortality improvement Scale MP-19 and MP-17 in the 2019 and 2017 valuations, respectively.	
Healthcare cost trend rate	<u>2019 valuation:</u> <u>2017 valuation:</u>	
	Pre-Medicare: 7.25% for 2021, decreasing to 4.0% for 2076 and later	Pre-Medicare: 7.5% for 2020, decreasing to 4.0% for 2076 and later
	Medicare: 6.3% for 2021, decreasing to 4.0% for 2076 and later	Medicare: 6.5% for 2020, decreasing to 4.0% for 2076 and later
Healthcare participation for future retirees	Currently covered: 100%; Currently waived: 90%	

^(l)Derived from data collected during 1997 to 2015 CalPERS Experience Study dated December 2015 for the June 30, 2019 actuarial valuation. For the June 30, 2017 actuarial valuation, pre-retirement mortality information was derived from data collected during the 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality and pre-retirement turnover information were derived from the 2007 to 2011 CalPERS Experience Study.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 and 2019 are summarized in the following table:

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Asset class	Target Allocation		Long-term expected real rate of return	
	2020	2019	2020	2019
Global equity	59.0 %	57.0 %	4.8 %	4.8 %
Fixed income	25.0	27.0	1.5	1.5
TIPS	5.0	5.0	1.3	1.3
Commodities	3.0	3.0	0.8	0.8
REITs	8.0	8.0	3.8	3.8
Total	100.0 %	100.0 %		

(e) Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2019 and 2018 measurement dates was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that Metropolitan contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

(f) Changes in the OPEB Liability

The following tables shows the changes in the net OPEB liability recognized over the measurement periods of June 30, 2019 and 2018:

(Dollars in thousands)	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2018 (MD)	\$ 468,185	\$ 239,851	\$ 228,334
Changes recognized for the measurement period:			
Service cost	10,635	—	10,635
Interest	31,600	—	31,600
Difference between expected and actual experience	(50,116)	—	(50,116)
Changes of assumptions	(4,217)	—	(4,217)
Contribution - employer	—	32,067	(32,067)
Net investment income	—	16,240	(16,240)
Benefit payments	(21,328)	(21,328)	—
Administrative expense	—	(57)	57
Net changes	\$ (33,426)	\$ 26,922	\$ (60,348)
Balance at June 30, 2019 (MD)	\$ 434,759	\$ 266,773	\$ 167,986

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(Dollars in thousands)	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2017 (MD)	\$ 448,095	\$ 207,526	\$ 240,569
Changes recognized for the measurement period:			
Service cost	10,325	—	10,325
Interest	30,252	—	30,252
Contribution - employer	—	34,674	(34,674)
Net investment income	—	18,538	(18,538)
Benefit payments	(20,487)	(20,487)	—
Administrative expense	—	(400)	400
Net changes	\$ 20,090	\$ 32,325	\$ (12,235)
Balance at June 30, 2018 (MD)	\$ 468,185	\$ 239,851	\$ 228,334

(g) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the OPEB Plan as of the June 30, 2019 and 2018 measurement dates if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

(Dollars in thousands)	2020	2019
Discount Rate -1%	5.75 %	5.75 %
Net OPEB Liability	\$ 224,217	\$ 288,683
Current Discount Rate	6.75 %	6.75 %
Net OPEB Liability	\$ 167,986	\$ 228,334
Discount Rate +1%	7.75 %	7.75 %
Net OPEB Liability	\$ 121,510	\$ 178,349

(h) Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the OPEB Plan if it were calculated using a healthcare trend rate that is one percentage point lower or one percentage point higher than the current rate, for measurement periods ended June 30, 2019 and 2018:

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(Dollars in thousands)	2020	2019
Healthcare Trend Rate -1%	6.5%/5.5 % decreasing to 3.0 %	6.5%/5.5 % decreasing to 3.0 %
Net OPEB Liability	\$ 117,114	\$ 170,535
Current Healthcare Trend Rate	7.5%/6.5 % decreasing to 4.0 %	7.5%/6.5 % decreasing to 4.0 %
Net OPEB Liability	\$ 167,986	\$ 228,334
Healthcare Trend Rate +1%	8.5%/7.5 % decreasing to 5.0 %	8.5%/7.5 % decreasing to 5.0 %
Net OPEB Liability	\$ 230,239	\$ 298,893

(i) OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERBT Fund financial reports.

(j) Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

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(k) OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the years ended June 30, 2020 and 2019, Metropolitan recognized OPEB expense of \$11.8 million and \$22.8 million, respectively. At June 30, 2020 and 2019, Metropolitan has deferred outflows and inflows of resources related to OPEB as follows:

(Dollars in thousands)	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2020	2019	2020	2019
OPEB contributions subsequent to measurement date	\$ 33,506	\$ 32,067	\$ —	\$ —
Differences between expected and actual experience	—	—	(40,289)	—
Changes of assumptions	—	—	(3,390)	—
Net difference between projected and actual earnings on OPEB plan investments	—	—	(3,658)	(7,288)
Total	\$ 33,506	\$ 32,067	\$ (47,337)	\$ (7,288)

The \$33.5 million and \$32.1 million reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 and 2018 measurement dates, respectively, will be/was recognized as a reduction of the net OPEB liability during the fiscal years ending/ended June 30, 2021 and 2020, respectively. The \$47.3 million and \$7.3 million reported as deferred inflows of resources related to OPEB at June 30, 2020 and 2019, respectively, will be recognized as expense as follows:

(Dollars in thousands)	Deferred Inflows of Resources	
	Fiscal year ending June 30,	
2021	\$ (12,565)	
2022	(12,565)	
2023	(10,833)	
2024	(10,311)	
2025	(1,063)	

9. COMMITMENTS AND CONTINGENCIES

(a) State Water Contract (see Note 10)

Estimates of Metropolitan's share of the projected fixed costs of the SWP are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates, and inflation. During the next five years, payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows:

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(Dollars in thousands)	State Water Contract Payments
Year ending June 30:	
2021	\$ 469,187
2022	480,909
2023	496,922
2024	495,033
2025	504,279

According to the State's latest estimates, Metropolitan's long-term commitments under the contract, for capital and minimum operations and maintenance costs, including interest to the year 2035, are as follows:

(Dollars in thousands)	State Water Long Term Commitments
Transportation facilities	\$ 3,866,223
Conservation facilities	2,453,016
Off-aqueduct power facilities ⁽¹⁾	6,077
East Branch enlargement	312,977
Revenue bond surcharge	608,129
Total long-term SWP contract commitments	<hr/> \$ 7,246,422

⁽¹⁾These commitments represent operations and maintenance costs. Metropolitan was relieved of its obligation for capital costs in 2018.

Metropolitan intends to exercise its option to extend its agreement with the State through 2085, which will result in annual minimum operations and maintenance costs through 2085. In addition, the amounts shown above do not contain any escalation for inflation, are subject to significant variation over time because the amounts are based on a number of assumptions, and are contingent on future events. None of the estimated long-term commitments are recorded as liabilities in the accompanying basic financial statements.

(b) Bay/Delta Regulatory and Planning Activities

The State Water Resources Control Board (State Board) is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of the State Board can affect the availability of water to Metropolitan and other water users throughout California. The State Board exercises its regulatory authority over Bay/Delta watershed supplies by means of public proceedings leading to regulations and decisions.

In September 2006, then Governor Schwarzenegger established a Delta Vision Process to identify a strategy for managing the Delta as a sustainable resource. The process was tied to legislation that created a Blue Ribbon Task Force (BRTF) and cabinet-level committee tasked with developing a durable vision for sustainable management of the Delta over the long-term which addressed a full array of issues, including land use, infrastructure, flood protection, and natural resources including water supply. The BRTF released its final Delta Vision Strategic Plan in October 2008 and a final implementation report was submitted to the Governor in January 2009. Subsequently, the Delta Reform Act of 2009 was enacted, which created the Delta Stewardship Council (DSC), a seven member appointed body charged with developing a Delta Plan to support carrying out the Delta Vision, which the DSC completed on September 1, 2013. The Delta Plan anticipated the need for periodic reviews and updates in response

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to changing circumstances and conditions in the Delta. The DSC amended the Delta Plan in February 2016 to include an initial set of performance measures in September 2016 to exempt single-year water transfers from consideration as covered actions. DSC adopted three amendments to the Delta Plan in April 2018. The Preliminary Draft Amendment to Chapter 4 (Ecosystem) was released in November 2019. The DSC anticipates the adoption of the amendment in 2021.

To avoid endangering State or federally listed species or adversely modifying their critical habitat, the Department of Water Resources consults with the California Department of Fish and Wildlife Service (CDFW) or its federal agency counterparts under the California Endangered Species Act (ESA) and federal ESA regarding the operation of the State Water Project. If a project may adversely affect a listed species, a formal consultation is held with the state and federal regulatory agencies. The regulatory agency(ies) then issue operating permits under their ESA jurisdiction, a federal biological opinion and a State Incidental Take Permit (ITP). Updated federal biological opinions were approved in February 2020 and a State ITP was issued by CDFW in March 2020. Both the federal and State permits have subsequently been challenged in court by multiple parties including water agencies and non-governmental organization groups. Metropolitan is involved in the federal permit litigation as part of the State Water Contractors, and in the State ITP litigation as Metropolitan, in order to protect its interests that the permits be based on the best available science

The Bay Delta Conservation Plan (BDCP), which began in 2007, is a voluntary collaboration of state, federal, and local water agencies, state and federal fish agencies, environmental organizations, and other interested parties to provide a comprehensive habitat conservation and restoration program for the Delta. In addition, the BDCP would provide the basis for permits under federal and state endangered species laws for activities covered by the plan based on the best available science, identified sources of funding, and an adaptive management and monitoring program. On April 30, 2015, the state announced its intent to include new alternatives separating the conveyance facilities and habitat restoration measures into two separate permitting efforts namely: California WaterFix and California EcoRestore. Under the California WaterFix, the new water conveyance facilities with proposed design changes would be constructed and operated. On February 12, 2019, Governor Newsom announced the shift to a single tunnel project now referred to as the Delta Conveyance Project. With the release of the Notice of Preparation (NOP) on January 15, 2020, DWR initiated the California Environmental Quality Act scoping period which concluded on April 17, 2020 after an extended 93-day public comment period. The information received will be considered in formulating alternatives to the proposed project and in the development of the Draft Environmental Impact Report expected for release between early 2021 and mid-2022.

The DWR submitted a revised permit application on June 15, 2020 to request authorization for the proposed Delta Conveyance project activities in the waters of the United States. The Section 404 permit application was submitted in order to formally engage the U.S. Army Corps of Engineers (USACE) in early coordination with DWR's California Environmental Quality Act process regarding environmental review under USACE's process for compliance with the National Environmental Policy Act and the Clean Water Act and Rivers and Harbors Act.

On April 29, 2019, Governor Newsom issued an executive order calling for the development of a water resilience portfolio meeting the needs of California's communities, economy, and environment through the 21st century. This

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includes the governor's vision for a modern water supply infrastructure, a more climate resilient water supply for people and the environment, and the SWP in particular must be updated to respond to climate change.

(c) Imperial Irrigation District

As of June 30, 2020, Metropolitan had advanced a total of \$350.9 million to IID for construction costs, operations and maintenance costs, and indirect costs of the conservation projects. Metropolitan remains obligated to pay IID for actual operation and maintenance costs for the remainder of this agreement through at least 2041. In return, Metropolitan will receive between 85.0 TAF to 105.0 TAF in 2020 and annually thereafter depending upon the amount used by the CVWD. A total of at least 85.0 TAF and up to 105.0 TAF will be/was available in calendar years 2020 and 2019, respectively, for diversion by Metropolitan (see Note 4a).

(d) Sale of Water by the Imperial Irrigation District to San Diego County Water Authority

In April 1998, the San Diego County Water Authority (SDCWA) and IID executed an agreement (Transfer Agreement) for SDCWA's purchase from IID of Colorado River water that is conserved within IID. SDCWA is a Metropolitan member agency and one of the largest water purchasers from Metropolitan. In October 2003 the Transfer Agreement was revised as part of the Quantification Settlement Agreement (see Note 9e). The amended Transfer Agreement sets the maximum transfer amount at 205.0 TAF in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200.0 TAF per year beginning in 2023.

No facilities exist to provide for delivery of water from IID to SDCWA. In 1998, Metropolitan and SDCWA entered into an agreement for the exchange of the IID water to be acquired by SDCWA under the Transfer Agreement, with water to be delivered by Metropolitan. In 2003, the boards of directors of Metropolitan and SDCWA agreed to an increase in the price that SDCWA would pay to Metropolitan for this exchange of water, in return for Metropolitan's assignment to SDCWA of Metropolitan's rights to water conserved as a result of the lining of the All-American and Coachella Canals and \$235.0 million, as set forth in an amended exchange agreement (Exchange Agreement) and an Allocation Agreement. Under the Exchange Agreement, SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and the conserved canal lining water allocated to SDCWA. In exchange, Metropolitan delivers an equal volume of water from its own sources of supply through its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. SDCWA pays Metropolitan a volumetric price for each delivery by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan's Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities (see Note 1c). SDCWA has challenged the validity of Metropolitan's charges for conveyance of water that became effective January 1, 2011 and January 1, 2012, in *San Diego County Water Authority v. Metropolitan Water District of Southern California; et al.* On June 8, 2012, SDCWA filed a separate lawsuit challenging the rates adopted by Metropolitan's Board on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. On May 30, 2014, SDCWA filed a separate lawsuit challenging the rates adopted by Metropolitan's Board on April 8, 2014 and effective on January 1, 2015 and January 1, 2016. On April 13, 2016, SDCWA filed a separate lawsuit challenging the rates and charges adopted by Metropolitan's Board on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. On June 8, 2018, SDCWA filed a separate lawsuit challenging the rates and charges adopted by Metropolitan's Board on April 10, 2018 and effective on January 1, 2019 and January 1, 2020. The Exchange Agreement requires Metropolitan to pay the disputed portion of the amount paid by SDCWA under

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the Exchange Agreement and interest thereon to SDCWA, if SDCWA prevails in a dispute over the price payable by SDCWA under the Exchange Agreement. See Claims and Litigation, Note 9g.

(e) Quantification Settlement Agreement

The Quantification Settlement Agreement (QSA) is part of the California Plan, which is a plan to reduce California's use of Colorado River water to its basic apportionment of 4.4 million acre-feet per year when necessary through water conservation, transfers from higher priority agricultural users to Metropolitan's service area, and storage programs. The QSA was executed in October 2003 and establishes Colorado River water use limits for IID and the CVWD. It also provides for specific acquisitions of conserved water and water supply arrangements and restores the opportunity for Metropolitan to receive any special surplus water.

(f) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2021 through 2025 totals approximately \$1.4 billion. However, due to various uncertainties such as lower than anticipated construction bids, permitting delays, and facility shutdowns constraints, capital spending is forecasted at \$200.0 million for fiscal year 2021, \$225.0 million for fiscal year 2022, and \$300.0 million per year for fiscal years 2023 through 2025.

Over the next three years, Capital Investment Plan budget totals approximately \$800.0 million with over \$157.1 million targeted for mechanical and electrical refurbishment and replacement (R&R) projects for the Colorado River Aqueduct; \$120.5 million for R&R work at Metropolitan's water treatment plants; \$122.9 million on a variety of information technology projects such as the Supervisory Control and Data Acquisition system, plus several security and support building improvements including the ongoing structural upgrades to the Los Angeles headquarters building; \$106.4 million on R&R work at pressure control facilities and pipelines throughout the distribution system; and \$108.7 million to continue relining of the Prestressed Concrete Cylinder Pipe portions of the Allen McColloch and Rialto Pipelines, and Calabasas, Second Lower, and Sepulveda feeders.

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Metropolitan had commitments under construction contracts in force as follows:

(Dollars in thousands)	June 30,	
	2020	2019
Colorado River Aqueduct pumping plants sump rehabilitation	\$ 25,766	\$ 26,497
Furnishing large-diameter conical plug valves	20,637	—
MWD headquarters building improvements	15,557	36,470
Colorado River Aqueduct - discharge line isolation couplings and bulkheads installation	14,697	—
Jensen water treatment plant electrical upgrade - stage 2	12,467	—
Diemer west basin and filter building rehabilitation	10,294	27,607
Furnishing earthquake-resistant ductile iron pipe for the Casa Loma siphon barrel no. 1	9,238	—
Greg Avenue pressure control structure - pump modifications and new control building	7,639	18,360
Second Lower Feeder PCCP rehabilitation - reach 2	7,414	52,273
Furnishing steel pipe for Casa Loma siphon barrel no. 1	6,134	—
Colorado River Aqueduct - installation of radial gates at seven facilities	5,647	—
Jensen water treatment plant - modules 2 and 3 flocculator rehabilitation	5,583	8,888
Colorado River Aqueduct pumping plants 6.9kV power cables replacement	5,437	16,289
Gene wash reservoir discharge valve replacement	5,094	—
Furnishing butterfly valves for the F.E. Weymouth water treatment plant - schedule 1	4,866	—
Furnishing equipment for the Jensen ozone PSU upgrades	4,100	—
Refurbish filter valve actuators for Diemer water treatment plant	2,536	3,222
F.E. Weymouth chlorination system upgrades	2,002	7,614
F.E. Weymouth water treatment plant water quality instrumentation improvements	1,845	—
Furnishing membrane filtration systems for the CRA domestic water treatment system	1,206	—
Furnishing horizontal axially split centrifugal pumps for the Greg Avenue pump station	1,013	1,314
Furnishing butterfly valves for F.E. Weymouth water treatment plant	772	772
West Valley Feeder No. 1 De Soto Avenue valve structure upgrades	575	—
F.E. Weymouth domestic water systems improvement	311	2,666
Orange County region service center	270	4,872
Furnishing one double column vertical machining center for La Verne shops	198	1,964
Furnishing lubricated plug valves for Second Lower Feeder	18	1,499
Mills electrical upgrades - stage 1A	10	782
Electrical upgrades at 15 structures in the Orange County region	10	2,456
Orange County feeder and extension relining - reach 2	—	3,512
Second Lower Feeder PCCP rehabilitation - reach 4	—	2,673
Intake pumping plant 2.4kV power line relocation	—	1,574
Palos Verdes reservoir cover and liner replacement	—	1,200
Colorado River Aqueduct uninterruptible power supply replacement	—	708
Other	1,638	2,659
Total	\$ 172,974	\$ 225,871

These commitments are being financed with operating revenues and debt financing.

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(g) Claims and Litigation

SDCWA filed San Diego County Water Authority v. Metropolitan Water District of Southern California, et al. on June 11, 2010. The complaint alleges that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012, misallocate certain State Water Contract costs to the System Access Rate and the System Power Rate, and thus affect charges for transportation of water, resulting in an overcharge to SDCWA by at least \$24.5 million per year. The complaint alleges that all SWP costs should be allocated instead to Metropolitan's Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It states additionally that Metropolitan will overcharge SDCWA by another \$5.4 million per year by including the Water Stewardship Rate in transportation charges.

The complaint requested a court order invalidating the rates adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with the State Water Contract and the Water Stewardship Rate to water supply rates and not to transportation rates. Rates in effect in prior years are not challenged in this lawsuit. SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims were for breach of the water Exchange Agreement between Metropolitan and SDCWA (see Note 9d) due to a price based on allegedly illegal rates; improper exclusion of SDCWA's payments under this Exchange Agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies; and illegality of the rate structure integrity provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. The rate structure integrity provision permitted the Board to terminate incentives payable under conservation and local resources incentive agreements between Metropolitan and a member agency due to certain actions by the member agency to challenge the rates that are the source of incentive payments. In June 2011, Metropolitan's Board authorized termination of two incentive agreements with SDCWA under the rate structure integrity provision in such agreements after SDCWA filed its initial complaint challenging Metropolitan's rates. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contained additional allegations but no new causes of action.

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. The complaint contained allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting that Metropolitan's rates, adopted in April 2012, violate Proposition 26. SDCWA filed a Third Amended Petition for Writ of Mandate and Complaint on January 23, 2013, to add new allegations that Metropolitan's rates adopted in April 2010 did not meet the requirements of Proposition 26. The court granted Metropolitan's motion to strike allegations relating to Proposition 26 on March 29, 2013, expressly ruling that SDCWA may not allege a violation of Proposition 26 in its challenge to the rates adopted in April 2010. This ruling did not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations.

Following trial of both lawsuits in two phases, concluding on January 23, 2014 and April 30, 2015, respectively, the Superior Court of the State of California, County of San Francisco (the "Superior Court"), issued its Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan appealed the trial court's decision in each case, and SDCWA filed a cross-appeal of the court's ruling on the rate structure integrity claim and an attorneys' fees order.

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On June 21, 2017, the California Court of Appeal released its decision in the appeals and cross-appeal filed by Metropolitan and SDCWA, respectively. The Court of Appeal ruled that Metropolitan may lawfully include its SWP transportation costs in the System Access Rate and System Power Rate that are part of the Exchange Agreement's price term, and that Metropolitan may also lawfully include the System Access Rate in its wheeling rate, reversing the trial court decision on this issue. The Court held Metropolitan's allocation of the SWP transportation costs as its own transportation costs is proper and does not violate the wheeling statutes (Water Code, § 1810, et seq.), Proposition 26 (Cal. Const., Article XIIIIC, §1, subd.(e)), whether or not that Proposition applies to Metropolitan's rates, California Government Code section 54999.7, the common law, or the terms of the parties' Exchange Agreement.

The Court of Appeal also ruled that the administrative record before it for the rates in calendar years 2011 through 2014 did not support Metropolitan's inclusion of its Water Stewardship Rate as a transportation cost in the Exchange Agreement price or the wheeling rate, under the common law and wheeling statutes. Having made that determination, the Court of Appeal stated it need not evaluate the issue under any other law. The court did not address the allocation of the Water Stewardship Rate in subsequent years based on a different record. The court noted, and in a subsequent modification confirmed, that its holding does not preclude Metropolitan from including the Water Stewardship Rate in Metropolitan's full service rate.

The Court of Appeal held that because the Water Stewardship Rate was included in the Exchange Agreement price, there was a breach by Metropolitan of the Exchange Agreement in 2011 through 2014. The court remanded the case to the trial court for a redetermination of damages in light of its ruling concerning the Water Stewardship Rate. The Court of Appeal agreed with the trial court that statutory prejudgment interest applies with respect to any damages award, not a lesser contractual interest. The Court of Appeal reversed the trial court by finding that the Exchange Agreement may entitle SDCWA to attorneys' fees for the second phase of the case concerning breach of contract; but directed the trial court on remand to make a new determination of the prevailing party, if any. The cases were therefore remanded to the trial court for a review of both damages and attorneys' fees.

With respect to other issues considered on appeal, the Court of Appeal upheld the trial court's ruling that Metropolitan improperly excludes SDCWA's payments under the Exchange Agreement in Metropolitan's calculation of SDCWA's preferential rights. The court also ruled that SDCWA had the constitutional right to challenge the rate structure integrity provision in Metropolitan's conservation and local resources incentive agreements, and found that the rate structure integrity provision was invalid and unenforceable as an unconstitutional condition on the provision of a public benefit.

On September 27, 2017, the California Supreme Court denied SDCWA's petition for review, declining to consider the Court of Appeal's decision. The Court of Appeal's decision is therefore final.

On July 25, 2018, the Superior Court issued an order regarding the scope of the matters to be reconsidered by the Superior Court on remand pursuant to the Court of Appeal decision. With respect to the Superior Court's redetermination of damages in light of the Court of Appeal's ruling that the administrative record for calendar years 2011 through 2014 did not support Metropolitan's inclusion of its demand management costs in the Exchange Agreement price, the Superior Court ruled that it will award SDCWA \$28,678,190.90 in contract damages for breach of the Exchange Agreement, plus prejudgment interest at 10 percent per annum. The Superior Court determined that

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Metropolitan is not entitled in the remand proceedings to show what it could have lawfully charged SDCWA for demand management costs and to deduct that from SDCWA's damages.

The Superior Court further ruled that SDCWA is not entitled in the remand proceedings to litigate the issue of "offsetting benefits" under the wheeling statutes for the parties' Exchange Agreement. The Superior Court found that such claim is both outside the scope of remand and waived.

The Superior Court also ruled that SDCWA is entitled to judgment on its declaratory relief cause of action declaring the rate structure integrity provision in Metropolitan's conservation and local resources incentive agreements invalid and unenforceable, SDCWA is entitled to further proceedings to litigate the issue of an entitlement to monetary restitution for 2011 through 2014, and the parties shall also litigate in further proceedings the issue of what prospective relief SDCWA may be entitled to in connection with this cause of action.

Finally, the Superior Court confirmed, as the parties agreed, that it will conduct further proceedings for a redetermination of the prevailing party and attorneys' fees in this matter.

On September 14, 2018, Metropolitan filed a Petition for Writ of Mandate with the California Court of Appeal, requesting the court to require the Superior Court to recalculate contract damages for breach of the Exchange Agreement from years 2011 through 2014, to include a set-off for the additional sums SDCWA would have paid had Metropolitan collected the Water Stewardship Rate through its full service sales as SDCWA argued was correct. On November 1, 2018, the Court of Appeal determined that it would not review the issue at this stage of the cases. Metropolitan may raise this issue again on any later appeal from the cases' final judgment.

The court had scheduled an evidentiary hearing for June 16 to June 18, 2020 on SDCWA's requested relief based on its rate structure integrity clause claim. Following action of the SDCWA Board of Directors on February 27, 2020 (discussed further below), SDCWA informed Metropolitan and the court that it was no longer seeking this relief. Accordingly, the evidentiary hearing was canceled. See Note 16, Subsequent Events for updates.

Due to SDCWA's litigation challenging Metropolitan's rates, and pursuant to the Exchange Agreement between Metropolitan and SDCWA, as of June 30, 2020, Metropolitan held \$58.0 million in a designated fund, the Exchange Agreement Set-Aside Fund. This amount includes the disputed Water Stewardship Rate payments for calendar years 2011 through the present, and interest earned by Metropolitan thereon. The amount held does not include statutory prejudgment interest or any post-judgment interest, attorneys' fees, or costs the Court may award. The Set-Aside Fund also does not include any amounts applicable to the rate structure integrity provision declaratory relief cause of action, because that claim does not involve disputed payments under the Exchange Agreement.

On February 14, 2019, Metropolitan tendered to SDCWA payment of \$44.4 million for the San Francisco Superior Court's contract damages award for Water Stewardship Rate payments from 2011 through 2014, plus statutory interest through February 15, 2019, with a reservation of appeal rights, in the San Diego County Water Authority v. Metropolitan Water District of Southern California, et al., 2010 and 2012 actions. This tender was made under compulsion to cease accrual of statutory interest in excess of market rates, but did not affect Metropolitan's rights to appeal, including its right to challenge the amount of the damages award. The tendered payment included \$31.6 million of amounts withdrawn from the Exchange Agreement Set-Aside Fund and \$12.8 million withdrawn

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from reserves (representing statutory interest). On March 7, 2019, SDCWA rejected the tendered payment and returned the uncashed check for the tendered payment. The returned funds were credited back to the Exchange Agreement Set-Aside Fund and Metropolitan reserves in the amounts drawn. The balance in the Exchange Agreement Set-Aside Fund set forth above includes the returned funds. In the 2010-2012 Judgment, the court confirmed that Metropolitan's tender was effective and stopped the accrual of interest in February 2019.

On August 29, 2019, as a result of changes in reorganization of assignments at the San Francisco Superior Court, the 2010, 2012, 2016, and 2017 SDCWA v. Metropolitan cases were reassigned to a different department of the Court. SDCWA filed a motion for peremptory disqualification of the new judge and on September 6, 2019, the motion was sustained. On September 27, 2019, the 2010, 2012, 2016, and 2017 cases were assigned to Department 304, a different complex department in which the 2014 case is already pending.

In May 2014, SDCWA filed a new lawsuit asserting essentially the same rate claims and breach of contract claim in connection with the Board's April 2014 rate adoption. Metropolitan filed its answer on June 30, 2014. On February 9, 2015, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed. See Note 16, Subsequent Events for updates. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On April 13, 2016, SDCWA filed a new lawsuit that alleges all rates and charges for 2017 and 2018 adopted by Metropolitan's Board on April 12, 2016 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts misallocation of costs as alleged in the previous cases listed above and additional claims of over-collection and misallocation of costs and procedural violations. Following a stipulated order issued by the court on November 10, 2016, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases' appeals. The amended petition/complaint adds allegations of the same Exchange Agreement breach as in the previous cases listed above and breach of a provision that requires Metropolitan to set aside disputed amounts, relating to the manner in which Metropolitan has set aside the amounts; requests a judicial declaration that, if a judgment is owed to SDCWA under the Exchange Agreement, SDCWA will not be required to pay any portion of that judgment; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees. See Note 16, Subsequent Events for updates. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On June 9, 2017, SDCWA filed a new Petition for Writ of Mandate and Complaint challenging the Readiness-to-Serve Charge and Capacity Charge for 2018 adopted by Metropolitan's Board on April 11, 2017. These two charges are set annually, and SDCWA's 2016 lawsuit included a challenge to these two charges for 2017. The new lawsuit similarly alleges the 2018 Readiness-to-Serve Charge and Capacity Charge violate the California Constitution, statutes, and common law. The petition/complaint asserts misallocation of costs. Metropolitan was served with the petition/complaint on June 20, 2017. On July 18, 2017, SDCWA filed a first amended petition/complaint to add Metropolitan's Board action of July 11, 2017 to make minor corrections to the Readiness-to-Serve Charge. On July 31, 2018, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed. See Note 16, Subsequent Events for updates.

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On June 8, 2018, SDCWA filed a new lawsuit that alleges all rates and charges for 2019 and 2020 adopted by Metropolitan's Board on April 10, 2018 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts the Water Stewardship Rate is unlawful per se and its collection in transportation charges is also unlawful; failure to provide wheelers a reasonable credit for "offsetting benefits" pursuant to Water Code Section 1810, et seq., which SDCWA contends (and Metropolitan disputes) applies to the parties' Exchange Agreement; over-collection and misallocation of costs, including misallocation of Metropolitan's California WaterFix costs as its transportation costs; and specified procedural violations. SDCWA states in the Petition and Complaint that it intends to amend its complaint to allege additional claims against Metropolitan, including but not limited to a claim for breach of contract. Following a stipulated order issued by the San Francisco Superior Court on January 10, 2019, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases. The amended petition/complaint adds a cause of action for breach of the Exchange Agreement alleging Metropolitan charged an unlawful price that includes the Water Stewardship Rate (despite suspension of this charge), failing to provide credit for offsetting benefits, charging transportation rates that are not based on costs of service, including California WaterFix costs, and not following procedural requirements; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees. This 2018 lawsuit has not yet been assigned to a department in the San Francisco Superior Court. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On November 15, 2019, Metropolitan provided a statutory Offer to Compromise to SDCWA to resolve all pending litigation filed by SDCWA. The offer, which was not confidential, was made under California Code of Civil Procedure Section 998, and was deemed withdrawn if not accepted by December 30, 2019. By letter dated December 19, 2019, SDCWA notified Metropolitan that it had determined not to act upon Metropolitan's Section 998 Offer to Compromise. Metropolitan's statutory Offer to Compromise is now deemed withdrawn. SDCWA made its own settlement offer, which is public but non-statutory. SDCWA's settlement offer was made subject to acceptance by Metropolitan no later than the close of business on January 31, 2020. The Metropolitan Board reviewed SDCWA's proposal at its January 14, 2020 Board meeting and took no action.

On February 27, 2020, the SDCWA Board of Directors authorized its attorneys to dismiss, without prejudice, claims related to payments of the Water Stewardship Rate on supply purchases only and the unquantified claims in the stayed cases relating to cost-of-service grounds and the rate model. The above-mentioned amended petitions/complaints in the 2014 and 2016 cases added, removed, and retained certain claims. Retained claims include SDCWA's challenge to Metropolitan's Water Stewardship Rate for calendar years 2015 through 2018 based on its allocation to transportation, with a request for the court to invalidate the transportation rates and the wheeling rate and award damages for breach of the parties' Exchange Agreement as a result. Added claims include a challenge to the wheeling rate and alleged breach of the Exchange Agreement for failure to provide offsetting benefits (only the stayed 2018 case had previously included an offsetting benefits claim). SDCWA has not yet dismissed claims in the 2018 case. Metropolitan has not yet assessed the impact of authorized dismissals. Metropolitan is unable to assess at this time the likelihood of success of these cases, any possible appeals or any future claims.

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(h) Drinking Water Quality Standards

Under the Safe Drinking Water Act Amendments of 1996, Congress required the United States Environmental Protection Agency to set new drinking water quality standards. New standards to control microbial pathogens and disinfection byproducts (DBPs) became effective in 2002. These rules are known as the Interim Enhanced Surface Water Treatment Rule and the Stage 1 Disinfectants/Disinfection By-Product Rule. These standards became more stringent in a second set of regulations effective 2006. The second set of regulations (the Stage 2 Disinfectants/Disinfection Byproducts Rule and the Long-Term 2 Enhanced Surface Water Treatment Rule) did not require additional capital investment by Metropolitan.

Metropolitan identified ozone disinfection as the most cost-effective option to minimize the production of DBPs and achieve other water quality objectives. Ozone is now used as the primary disinfectant at the Diemer, Jensen, Mills, and Skinner plants. The estimated cost of implementing ozone treatment at all five plants is approximately \$1.1 billion.

(i) Reid Gardner Generating Station

Reid Gardner Generating Station (Plant) is a 557 megawatt coal-fired plant located near Moapa, Nevada. The Plant is owned and operated by Nevada Energy (NE). In 1983, DWR entered into a Participation Agreement to import power from the Plant to serve the SWP energy needs. DWR's interest in the Plant terminated on July 25, 2013. DWR and NE negotiated the terms of the divestiture including DWR's obligations to mitigate any environmental impacts associated with the electricity generated for DWR over the past thirty years. Metropolitan paid approximately 75.0 percent of DWR's costs associated with the generation of electricity at the Plant and will pay this proportion of DWR's assigned mitigation costs.

(j) Landfill Obligation

Federal and State laws and regulations require that Metropolitan perform certain maintenance and monitoring functions at its sole landfill site for 30 years after closure. They further require that a separate funding mechanism be established to ensure that sufficient funds are available for closure and postclosure costs. In October 1995, the landfill was closed and management's estimate of closure and postclosure costs for this site totaled approximately \$2.0 million. The required thirty-year postclosure maintenance and monitoring of the landfill officially started in January 1998; after the installation of the landfill's final cover was completed. No amounts were expended for post closure maintenance and monitoring activities in fiscal year 2020 and approximately \$5,000 was expended in fiscal year 2019.

The actual cost of postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws or regulations. Funding of these costs has been derived from a separate trust account that has been established for closure and postclosure costs. The balance of the trust account is sufficient to cover the landfill liability. At June 30, 2020 and 2019, approximately \$800,000 net of interest receipts and disbursements was available in this account.

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10. PARTICIPATION RIGHTS IN STATE WATER PROJECT

Metropolitan is one of 29 water suppliers contracting with the State of California for a system to provide water throughout much of California. Under the terms of the State Water Contract, as amended, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project (see Note 9a). Metropolitan and the other contractors may also be responsible to the State for certain obligations of any contractor who defaults on its payments to the State.

Approximately 35 percent and 32 percent of Metropolitan's total expenditures during fiscal years ended June 30, 2020 and 2019, respectively, pertained to its net payment obligations for the SWP. These payments were primarily based on the contractual water delivery request, the annually requested and actual deliveries received, and the cost of power required for such deliveries, offset by credits received from the project.

The State Water Contract provides Metropolitan rights to water through 2052 but Management's present intention is to exercise Metropolitan's option to extend the contractual period to at least 2085, under similar terms, based on the Agreement in Principle reached in 2014. This corresponds to an estimated 125-year service life for the original facilities. The State is obligated to provide specified quantities of water throughout the life of the contract, subject to certain conditions.

The State has power generation facilities associated with its reservoirs and aqueducts. The power generated is utilized by the system for water transportation purposes. Power generated in excess of system needs is marketed to various utilities and California's power market. The revenues resulting from sales of excess power reduce the costs of pumping. Metropolitan and the other water contractors are responsible for repaying the operating costs of the power facilities regardless of the amount of power generated.

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1i, 2, and 9a). Metropolitan's share of system operations and maintenance costs is charged to expense.

Metropolitan amortizes a portion of capitalized participation rights each month using a formula that considers the total estimated cost of the project, the estimated useful life, and estimated production capacity of the assets based upon maximum annual contracted deliveries provided by the State of California. Amortization expense totaled \$142.7 million and \$141.7 million in fiscal years 2020 and 2019, respectively.

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II. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at June 30, 2020 and 2019 were as follows:

(Dollars in thousands)	June 30,	
	2020	2019
Prepaid water costs	\$ 234,768	\$ 196,488
Prepaid costs-Delta Habitat conservation and conveyance	58,627	58,627
Prepaid costs-California WaterFix	7,494	41,500
Prepaid expenses	23,583	10,365
Preliminary design/reimbursable projects	15,693	13,116
Other	16,945	11,188
Total deposits, prepaid costs, and other	357,110	331,284
Less current portion	(2,782)	(2,040)
Noncurrent portion	\$ 354,328	\$ 329,244

(a) Prepaid Water Costs

Metropolitan has entered into several water exchange and storage agreements with other agencies. These agreements provide Metropolitan with additional reliable water supplies to supplement deliveries of Colorado River and SWP water. Metropolitan is also actively pursuing other agreements, both within and outside its service area, to provide additional water supplies. The exchange and storage agreements generally provide for advance delivery of water during periods when water is available. At a later time when water is needed, these programs can then return water to improve Metropolitan's reliability. Expenditures associated with these agreements have been recorded as prepaid costs and are charged to cost of water as the water is withdrawn. At June 30, 2020 and 2019, prepaid water costs totaled approximately \$234.8 million and \$196.5 million, respectively, based on volumes of 1,114.0 TAF and 963.0 TAF, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance

In March 2009, Metropolitan, other SWP contractors, federal Central Valley Project contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with DWR. The agreements are known collectively as the Delta Habitat Conservation and Conveyance Program (DHCCP) Funding Agreement and the Bay Delta Conservation Plan and Delta Habitat Conservation and Conveyance Plan (BDCP - DHCCP) Supplemental Funding Agreement. Metropolitan's three-year DHCCP agreement provides funding of approximately \$35.0 million for Metropolitan's share (24 percent). Metropolitan's two-year BDCP-DHCCP agreement provides funding of approximately \$25.0 million (25 percent). The funding provided by both agreements supports development of the BDCP which was later on adapted as California WaterFix (see Note 9b) through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. The two-tunnel California WaterFix project shifted to a single tunnel project referred to as the Delta Conveyance Project with the announcement of Governor Newsom on February 12, 2019. Total prepaid costs at June 30, 2020 and 2019 were \$58.6 million.

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(c) Prepaid Costs—California WaterFix

In fiscal year 2019, Metropolitan disbursed a total of \$41.5 million to DWR for preconstruction planning costs of the California WaterFix in accordance with the advance funding agreement entered into in August 2018. The \$41.5 million was Metropolitan's share (31 percent) of the funding and DWR intends to refund Metropolitan for funds advanced through this agreement through bond financing actions. However, as a result of the shift to a single tunnel project and DWR's withdrawal of approval of the California WaterFix Project as well as the rescission of other permitting applications (see Note 9b), Metropolitan has requested, on June 27, 2019, that DWR return its contributions that have not been spent as of May 2, 2019. As of June 30, 2020, DWR has remitted \$34.0 million of unspent funds and \$.5 million of interest. Total advanced funds at June 30, 2020 and 2019 were \$7.5 million and \$41.5 million, respectively.

(d) Preliminary Design/Reimbursable Projects

Metropolitan engages in preliminary design activities prior to obtaining Board approval of capital projects. The costs of these designs are recorded as prepaid costs. Once Board approval is obtained, these costs are added to the cost of the relevant construction project.

Reimbursable projects include work Metropolitan is contracted to perform for outside, non-related parties, and is subsequently billed for reimbursement.

12. DEFERRED COMPENSATION AND SAVINGS PLANS

For the benefit of its employees, Metropolitan has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Investment of the funds is managed by a third-party administrator, accordingly, at June 30, 2020 and 2019, neither the plan assets nor the related liability were included in the accompanying basic financial statements.

The third-party administrator coordinates the investment of the deferred amounts in available investment vehicles per the instructions of each participant. Metropolitan's Treasurer serves as Trustee for the deferred compensation plan. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in this plan.

Metropolitan has established another compensation deferral arrangement in accordance with Section 401(k) of the Internal Revenue Code. The 401(k) Consolidated Savings Plan is available to substantially all employees. At June 30, 2020 and 2019, 1,641 and 1,584 employees, respectively, participated in the consolidated 401(k) plan. Amounts deferred by participants, Metropolitan matching contributions, and accumulated earnings thereon are fully vested. Deferred amounts and matching contributions are transferred by Metropolitan each pay period to a third-party administrator who coordinates the investment of such proceeds in a variety of investment vehicles in accordance with the instructions of each participant. The Treasurer serves as Trustee for the savings plan.

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Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in this plan.

Metropolitan has established a matching contribution program on behalf of each participating employee in the savings plan. Metropolitan's contribution is subject to a maximum of 4.5 percent of the employee's total cash compensation.

Contributions to the savings plan were as follows:

(Dollars in thousands)	June 30,	
	2020	2019
Employees	\$ 21,846	\$ 21,180
Metropolitan	9,606	9,135
	\$ 31,452	\$ 30,315
Eligible payroll	\$ 246,443	\$ 234,018
Employee contributions as percent of eligible payroll	8.9 %	9.1 %

13. NET POSITION

Net position is classified as either restricted, unrestricted, or net investment in capital assets, including State Water Project Costs.

Net investment in capital assets, including State Water Project costs consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition or construction of those assets and deferred outflows and inflows of resources related to debt. Metropolitan's capital assets, including SWP costs include plant and equipment (Notes 1h and 2), participation rights in State Water Project (Notes 1i, 2, and 10), and participation rights in other facilities (Notes 1i, 2 and 4). Net investment in capital assets, including State Water Project costs were approximately \$6.1 billion at June 30, 2020 and 2019.

The restricted component of net position are those items that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation. Restricted net position totaled \$473.1 million and \$418.6 million at June 30, 2020 and 2019, respectively, of which \$196.5 million and \$180.7 million, respectively, represents principal and interest set aside for the next bond payment. The remaining \$276.6 million and \$237.9 million, respectively, relates to estimated operating and maintenance expense for July and August of the subsequent fiscal year. Each of these requirements is related to bond covenants.

The unrestricted component of net position are those items that do not meet the definition of "restricted" or "net investment in capital assets, including State Water Project costs." Unlike the restricted net position, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The Board may at any time change or eliminate amounts established for these purposes. Unrestricted net position totaled \$344.8 million and \$286.0 million at June 30, 2020 and 2019, respectively.

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14. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to the design, construction, treatment, and delivery of water resources. Metropolitan self-insures most of its property losses, the first \$25.0 million for general liability, fiduciary liability and directors' and officers' liability, and \$5.0 million for workers' compensation. Metropolitan supplements its self-insurance program with \$75.0 million excess general liability coverage, \$60.0 million excess fiduciary liability coverage, \$65.0 million excess for directors' and officers' liability coverage, and statutory limits excess workers' compensation coverage. Special insurance policies carried include aircraft hull and liability, a limited property damage policy, crime insurance, specialty crime coverage, and travel accident coverage. Coverage types and limits for fiscal year 2020 were unchanged from fiscal year 2019. Settlement amounts did not exceed the self-insurance or insurance coverage limits in any of the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. The present value of liabilities for unpaid claims is based on a 1.5 percent annual interest rate over the life of the claims. Changes in the balances of claims liabilities during the past three fiscal years were included in accounts payable as follows:

(Dollars in thousands)	June 30,		
	2020	2019	2018
Unpaid claims, beginning of fiscal year	\$ 12,958	\$ 13,579	\$ 15,677
Incurred claims (including IBNR)	5,545	5,835	6,140
Claim payments and adjustments	(4,901)	(6,456)	(8,238)
Unpaid claims, end of fiscal year	<u>13,602</u>	<u>12,958</u>	<u>13,579</u>
Less current portion	(4,122)	(3,284)	(4,083)
Noncurrent portion	<u>\$ 9,480</u>	<u>\$ 9,674</u>	<u>\$ 9,496</u>

15. COVID-19 PANDEMIC

Metropolitan is assessing the effects that the ongoing COVID-19 outbreak, and measures taken by State and local governments to slow the virus' spread, will have on Metropolitan and its business and operations, as well as in the region that comprises Metropolitan's service area. While federal and state governments, including California, have enacted legislation and have taken executive actions designed to mitigate the negative public health and economic impacts of the COVID-19 pandemic, Metropolitan is unable to predict whether such interventions will have the intended effects. Reduced economic activity and its associated impacts, including as a result of the COVID-19 outbreak itself, such as job losses, income losses, business closures and housing foreclosures or vacancies, and any prolonged recession that may occur, could have a variety of adverse effects on Metropolitan and in the region. Declines in assessed valuations in Metropolitan's service area and/or increases in property tax delinquencies or non-payment of taxes as a result of the economic disruption may negatively affect property tax collections and reduce tax levy receipts.

Economic conditions affect aggregate levels of retail water use and may reduce water demands in the region and Metropolitan's water transactions and revenues. A protracted disruption in the manufacturing or construction

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industry may affect supply chains or delay construction schedules for, or the implementation of, Metropolitan's capital improvement programs and projects, and may increase the costs of such projects or program or Metropolitan's water system operations. Sustained deterioration in global stock market values may impact the market value of assets held to fund Metropolitan's pension and other post-employment benefit plans, which could result in future increases in required plan contributions. The extent and period of disruption to or decline in the local and global economies, the duration and severity of the outbreak, and the ramifications of future actions that may be taken or required by governmental authorities to contain and respond to the outbreak are uncertain, and no assurances can be given that Metropolitan's operations and finances will not be negatively affected.

16. SUBSEQUENT EVENT

SDCWA v. Metropolitan Cases

On July 23, 2020, the court entered SDCWA's requested dismissal of the 2017 case. The dismissal is without prejudice, which means SDCWA would not be precluded from re-initiating the case in the future.

On August 13, 2020, the San Francisco Superior Court entered a final judgment in the 2010 and 2012 SDCWA v. Metropolitan cases (the "2010-2012 Judgment"). On August 14, 2020, SDCWA served notice of entry of judgment and notice of the court's peremptory writ of mandate in the cases.

In the 2010-2012 Judgment, the Court entered judgment: (1) on the first three causes of action – for writ of mandate, declaratory relief, and invalidation (the rate challenges) – in SDCWA's favor, because the Court of Appeal found Metropolitan's inclusion of the Water Stewardship Rate as a component of the transportation rates charged under the Exchange Agreement and wheeling rate was unlawful, and ordered issuance of a writ of mandate as described below; (2) on the fourth cause of action – breach of contract – in favor of SDCWA but only with respect to its challenge to Metropolitan's inclusion of the Water Stewardship Rate in the Exchange Agreement price for deliveries in 2011-2014, the Court awarded San Diego a total of \$44,373,872.29, comprised of: (A) \$28,678,190.90 in damages; (B) prejudgment interest at the rate of 10 percent per annum through November 18, 2015 in the amount of \$7,484,315.54; and (C) post-judgment interest at the rate of 7 percent per annum from November 19, 2015 until February 15, 2019 (the date of Metropolitan's tender of \$44,373,872.29 to San Diego), in the amount of \$8,211,365.85; (3) on the fifth cause of action – declaratory relief regarding the Rate Structure Integrity (RSI) clause – in favor of SDCWA as the RSI clause is invalid and unenforceable; (4) on the sixth cause of action – declaratory relief regarding preferential rights calculation – in favor of SDCWA that Metropolitan's previous methodology for calculating preferential rights violates § 135 of the Metropolitan Water District Act; (5) on the previously-dismissed cause of action for breach of fiduciary duty – in favor of Metropolitan; and (6) on the previously dismissed cause of action for breach of the covenant of good faith and fair dealing – in favor of Metropolitan.

The peremptory writ of mandate commands Metropolitan to "enact only legal wheeling and transportation rates in the future and, specifically, not to do the things that [the Court of Appeal] held were unlawful," and incorporates by reference the Court of Appeal decision; and to "exclude the costs of conservation programs and other demand management programs, enacted in [the 2010 and 2012] cases as the Water Stewardship Rate, from Metropolitan's wheeling rate published in Section 4405 of Metropolitan's Administrative Code and from the transportation rates charged under the [Exchange Agreement]."

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Metropolitan filed a notice of appeal of the 2010-2012 Judgment and the writ on September 11, 2020.

The court will hear cross-motions on the determination of a prevailing party in the 2010 and 2012 cases, if any, on November 12, 2020, followed by attorneys' fees proceedings if the court determines there is a prevailing party. On January 12, 2021, the court will hear Metropolitan's motion to strike SDCWA's memorandum of costs, and SDCWA's motion to strike or tax Metropolitan's memorandum of costs, which also involve a determination of prevailing party. Metropolitan contends that it is the prevailing party entitled to attorneys' fees and costs, or else there is not a prevailing party in these mixed-result cases. The determinations as to any prevailing party, attorneys' fees, and costs will also be subject to appeal after entry of the final order.

On August 27, 2020, the court granted SDCWA's motion to lift the stays in the 2014 and 2016 SDCWA v. Metropolitan cases and to file a further amended petition/complaint. SDCWA filed the amended petitions/complaints on August 28, 2020. On September 28, 2020, Metropolitan filed demurrers to, or in the alternative motions to strike, portions of the amended petitions/complaints, which is set for hearing on February 10, 2021. The pleadings seek to remove offsetting benefits claims in both cases as to alleged breach of contract and Metropolitan's wheeling rate, and a declaratory relief claim in the 2016 case as to how Metropolitan may satisfy a judgment.

Short-term and Long-term Debt

On July 1, 2020, Metropolitan issued \$268.0 million of Water Revenue Refunding Bonds, 2020 Series C. Bond proceeds refunded \$350.2 million of the following outstanding bonds: \$250.0 million of Water Revenue Bonds 2010 Authorization; Series A, \$44.3 million of Water Revenue Refunding Bonds, 2010 Series B; \$14.0 million of Water Revenue Refunding Bonds, 2014 Series C-2; \$6.2 million of Water Revenue Refunding Bonds, 2014 Series G-5; \$35.6 million of Index Notes (Taxable and New Money), Subseries B-2; and funded costs of issuance. The maturities extend to July 1, 2040, and the bonds are subject to optional redemption provisions.

On September 1, 2020, Metropolitan issued \$13.7 million of Waterworks General Obligation Refunding Bonds, 2020 Series A. Bond proceeds refunded the \$18.7 million of Waterworks General Obligation Refunding Bonds, 2010 Series A, and the costs of issuance. Maturities extend to March 1, 2037, and the bonds are subject to optional redemption provision.

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(Dollars in thousands)	2020	2019	2018	2017	2016	2015 ⁽⁵⁾
TOTAL PENSION LIABILITY						
Service cost	\$ 35,739	\$ 33,583	\$ 33,685	\$ 29,142	\$ 28,890	\$ 28,505
Interest on total pension liability	168,122	161,023	156,661	152,500	146,852	139,190
Changes of assumptions	—	(15,391)	125,734	—	(35,008)	—
Difference between expected and actual experience	16,205	(10,039)	(15,804)	(12,754)	14,665	—
Benefit payments, including refunds of employee contributions	(117,537)	(107,646)	(100,092)	(92,401)	(86,154)	(81,391)
Net change in total pension liability	102,529	61,530	200,184	76,487	69,245	86,304
Total pension liability - beginning	2,376,778	2,315,248	2,115,064	2,038,577	1,969,332	1,883,028
Total pension liability - ending (a)	\$ 2,479,307	\$ 2,376,778	\$ 2,315,248	\$ 2,115,064	\$ 2,038,577	\$ 1,969,332
PLAN FIDUCIARY NET POSITION						
Contribution - Employer	\$ 56,497	\$ 48,780	\$ 42,819	\$ 38,393	\$ 34,306	\$ 33,853
Contribution - Employee	15,631	15,749	14,895	15,034	14,787	15,185
Net investment income ⁽¹⁾	114,220	139,003	171,562	8,304	35,301	236,746
Benefit payments, including refunds of employee contributions	(117,537)	(107,646)	(100,092)	(92,401)	(86,154)	(81,391)
Net plan to plan resource management	—	(4)	—	—	—	—
Administrative expense	(1,244)	(2,577)	(2,255)	(950)	(1,756)	—
Other miscellaneous income/(expense) ⁽²⁾	4	(4,895)	—	—	—	—
Net change in fiduciary net position	67,571	88,410	126,929	(31,620)	(3,516)	204,393
Plan fiduciary net position - beginning ⁽³⁾	1,742,741	1,654,331	1,527,402	1,559,022	1,562,538	1,358,145
Plan fiduciary net position - ending (b)	\$ 1,810,312	\$ 1,742,741	\$ 1,654,331	\$ 1,527,402	\$ 1,559,022	\$ 1,562,538
Plan net pension liability - ending (a) - (b)	\$ 668,995	\$ 634,037	\$ 660,917	\$ 587,662	\$ 479,555	\$ 406,794
Plan fiduciary net position as a percentage of the total pension liability	73.02 %	73.32 %	71.45 %	72.22 %	76.48 %	79.34 %
Covered payroll ⁽⁴⁾	\$ 212,558	\$ 204,635	\$ 199,186	\$ 195,878	\$ 190,423	\$ 186,850
Plan net pension liability as a percentage of covered payroll	314.74 %	309.84 %	331.81 %	300.01 %	251.84 %	217.71 %

⁽¹⁾2015 amount was net of administrative expenses of \$1,972.

⁽²⁾During Fiscal Year 2017-18, as a result of GASB 75, CalPERS reported its proportionate share of activity related to post-employment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75. Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB 68.

⁽³⁾Includes any beginning of year adjustment.

⁽⁴⁾Includes one year's payroll growth using 2.75 percent payroll growth assumption for fiscal years ended June 30, 2018-19; 3.00 percent payroll growth assumption for fiscal years ended June 30, 2014-17.

⁽⁵⁾GASB 68 requires ten years of information be presented but only six years are available at this time. Additional years' information will be displayed as it becomes available.

See accompanying independent auditor's report

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2018 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

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Changes of Assumptions: None in 2019. In 2018, demographic assumptions and inflation rate were changed in accordance with CalPERS experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

(Dollars in thousands)	2020	2019	2018	2017	2016	2015 ⁽¹⁾
Actuarially determined contribution	\$ 66,091	\$ 56,497	\$ 48,780	\$ 42,819	\$ 38,393	\$ 34,306
Contributions in relation to the actuarially determined contribution	(66,091)	(56,497)	(48,780)	(42,819)	(38,393)	(34,306)
Contribution deficiency (excess)	<u>\$ —</u>					
Covered payroll	\$ 225,707	\$ 212,558	\$ 204,635	\$ 199,186	\$ 195,878	\$ 190,423
Contributions as a percentage of covered payroll	29.3 %	26.6 %	15.4 %	21.5 %	19.6 %	18.02 %

⁽¹⁾GASB 68 requires ten years of information be presented but only six years are available at this time. Additional years' information will be displayed as it becomes available.

See accompanying independent auditor's report

Notes to Schedule:

Methods and assumptions used to set the actuarially determined contribution rates for fiscal year 2020:

Valuation date: June 30, 2017

Actuarial Cost Method	Entry age, level percentage of payroll
Amortization Method/Period	Level percentage of payroll over 20 year period
Asset Valuation Method	Investment gains/losses amortized over a fixed 30-year period spread directly over 5 years.
Discount rate	7.25%
Inflation	2.625%
Mortality, disability, termination, retirement	CalPERS 1997-2015 Experience Study
Mortality improvement	15 years of mortality projection using 90% of Scale MP 2016 from the Society of Actuaries

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED
(CONTINUED)
June 30, 2020 and 2019

(Dollars in thousands)	2020	2019	2018 ⁽¹⁾
TOTAL OPEB LIABILITY			
Service cost	\$ 10,635	\$ 10,325	\$ 10,024
Interest	31,600	30,252	28,951
Changes of assumptions	(4,217)	—	—
Difference between expected and actual experience	(50,116)	—	—
Benefit payments	(21,328)	(20,487)	(19,525)
Net change in total OPEB liability	(33,426)	20,090	19,450
Total OPEB liability - beginning	468,185	448,095	428,645
Total OPEB liability - ending (a)	\$ 434,759	\$ 468,185	\$ 448,095
PLAN FIDUCIARY NET POSITION			
Contribution - employer	\$ 32,067	\$ 34,674	\$ 33,646
Net investment income	16,240	18,538	20,792
Benefit payments	(21,328)	(20,487)	(19,525)
Administrative expense	(57)	(400)	(107)
Net change in fiduciary net position	26,922	32,325	34,806
Plan fiduciary net position - beginning	239,851	207,526	172,720
Plan fiduciary net position - ending (b)	\$ 266,773	\$ 239,851	\$ 207,526
Plan net OPEB liability - ending (a) - (b)	\$ 167,986	\$ 228,334	\$ 240,569
Plan fiduciary net position as a percentage of the total OPEB liability	61.36 %	51.23 %	46.31 %
Covered payroll	\$ 212,558	\$ 204,635	\$ 199,186
Plan net OPEB liability as a percentage of covered payroll	79.03 %	111.58 %	120.78 %

⁽¹⁾Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

See accompanying independent auditor's report

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED
(CONTINUED)
June 30, 2020 and 2019

Schedule of Plan Contributions

(Dollars in thousands)	2020	2019	2018 ⁽¹⁾
Actuarially determined contribution	\$ 28,148	\$ 27,328	\$ 30,086
Contributions in relation to the actuarially determined contribution	(33,506)	(32,067)	(34,674)
Contribution deficiency (excess)	<u>\$ (5,358)</u>	<u>\$ (4,739)</u>	<u>\$ (4,588)</u>
Covered payroll	\$ 225,707	\$ 212,558	\$ 204,635
Contributions as a percentage of covered payroll	14.84 %	15.09 %	16.94 %

⁽¹⁾Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

See accompanying independent auditor's report

Notes to Schedule:

Methods and assumptions used to set the actuarially determined contribution rates for fiscal year 2020 were from the June 30, 2017 actuarial valuation:

Actuarial Cost Method	Entry age, level percentage of payroll
Amortization Method/Period	Level percentage of payroll over 23 year closed period (17 years remaining on 6/30/20).
Asset Valuation Method	Investment gains/losses spread over 5 year rolling period with corridor of 80% and 120% of market value
Discount rate	6.75%
Inflation	2.75%
Mortality, disability, termination, retirement	CalPERS 1997-2011 Experience Study
Medical trend	Pre-Medicare - 7.5% for 2020, decreasing to 4.0% for 2076 and later Medicare - 6.5% for 2020, decreasing to 4.0% for 2076 and later
Mortality improvement	Mortality projected fully generational with Scale MP-2017.

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**THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA**

Basic Financial Statements

Nine Months Ended March 31, 2021 and 2020

(Unaudited)

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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UNAUDITED
March 31, 2021 and 2020

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2021 and 2020

(Unaudited)

The following discussion and analysis of The Metropolitan Water District of Southern California's (Metropolitan) financial performance provides an overview of the financial activities for the nine months ended March 31, 2021 and 2020. This discussion and analysis should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

Metropolitan maintains its accounting records in accordance with generally accepted accounting principles for enterprise fund (proprietary type fund) as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The statements of net position include all of Metropolitan's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position, some of which is restricted in accordance with bond covenants or other commitments. The statements of revenues, expenses and changes in net position report all of Metropolitan's revenues and expenses during the periods indicated. The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from taxes and investment income, and cash used for construction projects, State Water Project costs and principal and interest payments on borrowed money. Certain amounts reported in fiscal year 2020 have been reclassified to conform to the fiscal year 2021 presentation. Such reclassification had no effect on the previously reported change in net position.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

CONDENSED FINANCIAL INFORMATION*Condensed Schedule of Net Position*

	March 31,		
	2021	2020	2019
(Dollars in millions)			
Assets and deferred outflows of resources			
Capital assets, net	\$ 10,580.2	\$ 10,560.8	\$ 10,443.2
Other assets	<u>2,131.3</u>	1,914.6	1,810.6
Total assets	12,711.5	12,475.4	12,253.8
Deferred outflows of resources	150.8	190.9	227.9
Total assets and deferred outflows of resources	12,862.3	12,666.3	12,481.7
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	4,570.0	5,106.1	4,811.6
Other liabilities	<u>1,156.2</u>	571.4	790.9
Total liabilities	5,726.2	5,677.5	5,602.5
Deferred inflows of resources	74.8	31.5	36.8
Total liabilities and deferred inflows of resources	5,801.0	5,709.0	5,639.3
Net position			
Net investment in capital assets, including State Water Project costs	6,143.9	6,198.3	6,163.2
Restricted	<u>582.2</u>	470.1	398.9
Unrestricted	<u>335.2</u>	288.9	280.3
Total net position	\$ 7,061.3	\$ 6,957.3	\$ 6,842.4

Capital Assets, Net

Net capital assets include plant, participation rights, and construction work in progress, net of accumulated depreciation and amortization.

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. At March 31, 2021, net capital assets totaled \$10.6 billion, or 82.3 percent of total assets and deferred outflows of resources, and were \$19.4 million higher than the prior year. The increase included Metropolitan's continued expenditures on the capital investment plan of \$301.9 million (including \$7.4 million of capitalized interest) and a net increase of \$141.7 million in participation rights in State Water Project (SWP), offset by depreciation and amortization of \$344.4 million and \$79.8 million retirements or replacements of capital assets and write-off of construction in progress related to a recalculation of previously capitalized interest on construction. See the capital assets section on pages 15-16 for additional information.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
March 31, 2021 and 2020
(Unaudited)

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. At March 31, 2020, net capital assets totaled \$10.6 billion, or 83.4 percent of total assets and deferred outflows of resources, and were \$117.6 million higher than the prior year. The increase included Metropolitan's continued expenditures on the capital investment plan of \$344.5 million (including \$9.5 million of capitalized interest) and a net increase of \$145.5 million in participation rights in SWP and other facilities, offset by depreciation and amortization of \$352.7 million and \$19.7 million net retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred. See the capital assets section on pages 15-16 for additional information

Other Assets

Other assets include accounts receivable, inventories, prepaid costs, and cash and investments.

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. At March 31, 2021, other assets totaled \$2.1 billion and were \$216.7 million higher than the prior year. The increase included \$161.3 million higher cash and investments primarily due to \$188.9 million proceeds from the Water Revenue Bonds 2021 Series A. Water revenues receivable also increased \$34.6 million as fiscal year 2021 February and March water transactions were higher than prior year comparable months. Deposits, prepaid costs and other was \$22.1 million higher than prior year. The increase included \$25.0 million funding for the Delta Conveyance Project planning and pre-construction costs. In addition, the High Desert Bank Program was operational for nine months in fiscal year 2021 compared to three months in the prior year resulting in \$12.0 million of higher costs. These increases were offset by \$18.7 million lower prepaid water costs due to 86.7 thousand acre feet (TAF) less supply in various storage programs.

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. At March 31, 2020, other assets totaled \$1.9 billion and were \$104.0 million higher than the prior year. The increase included \$49.6 million higher deposits, prepaid costs, and other primarily due to \$45.7 million or 320.5 TAF more water in various storage programs, \$13.3 million due to capital costs related to the High Desert Bank Program that started in fiscal year 2020 and \$12.0 million higher Palo Verde Irrigation District land fallowing costs. These increases were offset by \$34.0 million refund of California WaterFix advance funding from the Department of Water Resources (DWR). In addition, water revenue receivables was \$40.9 million higher due to higher price, water inventory was \$16.9 million higher due to increased per acre-foot cost and \$9.3 million higher tax receivables resulting from higher property values. These increases were offset by \$12.3 million of lower cash and investments.

Deferred Outflows of Resources

Deferred outflows of resources include deferred outflows related to loss on bond refundings and swap terminations, deferred outflows related to the net pension liability and net OPEB liability, and deferred outflows for effective interest rate swaps.

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. At March 31, 2021, deferred outflows totaled \$150.8 million and were \$40.1 million lower than the prior year. The decrease was primarily due to \$21.7 million lower deferred outflows related to pension, which included \$39.3 million lower deferred outflows due to changes of actuarial assumptions and \$3.3 million lower deferred outflows related to the net difference between projected and actual earnings on pension plan investments, offset by \$11.3 million higher difference between actual and expected experience and \$9.6 million higher deferred outflows related to pension contributions subsequent to the

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
March 31, 2021 and 2020
(Unaudited)

measurement date. In addition, deferred outflows of effective swaps were \$14.6 million lower due to higher interest rates and deferred loss on bond refundings was \$7.0 million lower due to \$4.0 million of refunding transactions and \$3.0 million of scheduled amortization.

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. At March 31, 2020, deferred outflows totaled \$190.9 million and were \$37.0 million lower than the prior year. The decrease included \$31.5 million lower deferred outflows related to pension, comprised of \$39.3 million lower deferred outflows due to changes of actuarial assumptions and \$16.4 million lower deferred outflows related to the net difference between projected and actual earnings on pension plan investments, offset by \$25.1 million higher deferred outflows related to pension contributions subsequent to the measurement date. In addition, deferred loss on bond refundings was \$8.8 million lower due to \$5.2 million of scheduled amortization and \$3.6 million of refunding transactions and deferred outflows related to loss on swap terminations was \$8.8 million lower due to \$6.2 million of refunding transactions and \$2.6 million of scheduled amortization. These decreases were partially offset by \$14.6 million higher deferred outflows of effective swaps due to lower interest rates.

Long-term Liabilities, Net of Current Portion

Long-term liabilities, net of current portion include long-term debt, revolving notes, customer deposits and trust funds, net pension liability, net OPEB liability, accrued compensated absences, workers' compensation and third party claims, fair value of interest rate swaps, and other long-term obligations.

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. At March 31, 2021, long-term liabilities, net of current portion totaled \$4.6 billion and were \$536.1 million lower than the prior year primarily due to \$451.6 million decrease in long-term debt, net of current portion, which included \$518.3 million more current portion of long-term debt as compared to prior year, \$133.9 million principal payments and \$128.3 million of bond refundings, as the new debt issued was less than the amount of debt refunded, offset by \$188.9 million in new revenue bonds and \$139.9 million higher premiums and discounts. For additional information, see other liabilities and long-term debt sections on pages 7 and 17, respectively. Further contributing to the decrease in long-term debt net of current portion was \$60.0 million lower net OPEB liability primarily due to \$50.1 million difference between expected and actual experience, \$32.1 million of employer contributions to the OPEB plan and \$16.2 million of OPEB plan investment earnings, offset by \$31.6 million of interest on the total OPEB liability and \$10.6 million of service costs. Long-term revolving notes also decreased by \$46.8 million due to the reclassification of the BANA note which is due in August 2021 and fair value of interest rate swaps decreased \$20.8 million due to higher interest rates than prior year. These decreases were offset by \$35.0 million higher net pension liability primarily due to \$168.1 million interest on the total pension liability and \$35.7 million in service costs, offset by \$114.2 million of pension plan investment earnings and \$56.5 million employer contributions to the pension plan.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
March 31, 2021 and 2020
(Unaudited)

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. At March 31, 2020, long-term liabilities, net of current portion, totaled \$5.1 billion and were \$294.5 million higher than the prior year primarily due to \$310.7 million increase in long-term debt, net of current portion, which included \$248.1 million less current portion of long-term debt as compared to prior year, \$207.4 million in new bonds and \$131.5 million higher premiums and discounts. These increases in long-term debt, net of current portion, were offset by \$141.5 million principal payments and \$134.8 million of bond refundings, as the new debt issued was less than the amount of debt refunded. See other liabilities section below and long-term debt section on page 16 for additional information. Also contributing to the increase in long-term liabilities, net of current portion was \$20.5 million higher fair value of interest rate swaps due to lower interest rates as compared to prior year. These increases were offset by \$26.9 million lower net pension liability due to \$139.0 million of pension plan investment earnings and \$48.8 million of employer contributions to the pension plan offset by \$161.0 million interest on the total pension liability. Net OPEB liability was also \$13.1 million lower due to \$34.7 million of employer contributions to the OPEB plan and \$18.5 million of OPEB plan investment earnings, offset by \$30.3 million of interest on the total OPEB liability and \$10.3 million of service costs.

Other Liabilities

Other liabilities represent current liabilities that are due within one year. Current liabilities include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. At March 31, 2021, other liabilities totaled \$1.2 billion and were \$584.8 million higher than the prior year primarily due to \$518.3 million more current portion of long-term debt primarily due to mandatory tender dates within one year for the Subordinate Water Revenue Refunding Bonds, 2017 Series D and E in the amount of \$191.2 million, the Subordinate Water Revenue Bond 2016 Series A in the amount of \$175.0 million and the Subordinate Water Revenue Bond 2017 Series C in the amount of \$80.0 million. Further contributing to the increase in current portion of long-term debt is the Special Variable Rate Water Revenue Refunding Bonds 2018 Series A-1 and A-2 in the amount of \$90.1 million and the Water Revenue Refunding Bonds 2016 Series B-1 and B-2 in the amount of \$82.9 million, both of which are supported by standby bond purchase agreements (SBPA) that expire within one year. These increases were offset by the Water Revenue Refunding Bonds Series 2015 A-1 and A-2 which were refunded and reduced the current portion by \$114.8 million. Additionally, the current portion of long-term debt increased by \$46.8 million due to the reclassification of the BANA note which is due in August 2021 and accounts payable and accrued expenses were \$13.8 million higher primarily due to higher SWP variable costs resulting from the purchase of carryover allocations from prior year.

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. At March 31, 2020, other liabilities totaled \$571.4 million and were \$219.5 million lower than the prior year primarily due to \$248.1 million less current portion of long-term debt as the outstanding Water Revenue Bonds 2000 Series B-3 and 2017 Series A in the amount of \$88.8 million and \$80.0 million, respectively, which were supported by a standby bond purchase agreement (SBPA) that expired in March 2020, are now supported by a SBPA that expires in March 2023. In addition, the Water Revenue Refunding Bonds 2016 Series B in the amount of \$103.7 million, which was supported by a SBPA that expired in September 2019, is now supported by a SBPA that expires in July 2021. The decrease in current portion of long-term debt was offset by \$24.6 million higher accounts payable and accrued expenses primarily due to higher SWP variable costs resulting from higher water allocation.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
March 31, 2021 and 2020
(Unaudited)

Deferred Inflows of Resources

Deferred inflows of resources represent deferred inflows related to the net pension liability, net OPEB liability and deferred inflows for effective interest rate swaps.

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. At March 31, 2021, deferred inflows of resources totaled \$74.8 million and were \$43.3 million higher than the prior year primarily due to a \$40.0 million increase in deferred inflows related to OPEB which included \$40.3 million higher differences between expected and actual experience. In addition, deferred inflows related to effective swaps increased \$6.2 million due to higher interest rates. These increases were partially offset by \$2.9 million lower deferred inflows related to pension which included \$8.9 million lower differences between expected and actual experience and \$4.8 million lower changes of assumptions offset by \$10.8 million higher net difference between projected and actual earnings on pension plan investments.

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. At March 31, 2020, deferred inflows of resources totaled \$31.5 million and were \$5.3 million lower than the prior year primarily due to a \$12.1 million decrease in effective swaps due to lower interest rates, offset by \$6.4 million higher deferred inflows related to pension which included \$8.4 million higher changes of assumptions and \$2.0 million lower difference between expected and actual experience.

Net Investment in Capital Assets, including State Water Project Costs

Net investment in capital assets, including State Water Project costs, include amounts expended for capital improvements and SWP, offset by accumulated depreciation and amortization and outstanding debt issued for these purposes and related deferred outflows of resources.

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. At March 31, 2021, net investment in capital assets, including State Water Project costs totaled \$6.1 billion and was \$54.4 million lower than the prior year. The decrease included \$73.8 million increase in outstanding debt and related deferred outflows of resources partially offset by \$19.4 million net increase in capital assets. See discussions of these items in the capital assets and long-term debt sections on pages 15-16 and 17, respectively.

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. At March 31, 2020, net investment in capital assets, including State Water Project costs totaled \$6.2 billion and was \$35.1 million higher than the prior year. The increase included \$117.6 million net increase in capital assets partially offset by \$82.5 million increase in outstanding debt and related deferred outflows of resources. See discussions of these items in the capital assets and long-term debt sections on pages 15-16 and 17, respectively.

Restricted Net Position

Restricted net position includes amounts restricted for debt service payments, capital projects and operating expenses, all of which are required by bond covenants.

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. At March 31, 2021, restricted net position totaled \$582.2 million which was \$112.1 million higher than prior year. The increase included \$47.1 million higher restricted for capital projects due to the issuance of the Water Revenues Bonds 2021 Series A for the purpose of construction and \$35.4 million higher restricted for operating expenses as labor and benefit costs are estimated to be

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
March 31, 2021 and 2020
(Unaudited)

higher in fiscal year 2021 due to negotiated labor increases, higher pension contribution requirement and increase in benefit premiums and \$29.6 million higher restricted for debt service resulting from higher principal and interest payment requirements.

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. At March 31, 2020, restricted net position totaled \$470.1 million which was \$71.2 million higher than prior year. The increase included \$44.4 million higher restricted for capital projects due to the issuance of the Water Revenue Bonds 2020 Series A for the purpose of construction and \$33.0 million higher restricted for operating expenses as the SWP operations, maintenance, power and replacement (OMP&R) costs were estimated to be higher in fiscal year 2020 than fiscal year 2019, offset by \$6.2 million lower restricted for debt service resulting from lower principal and interest payment requirements.

Unrestricted Net Position

Unrestricted net position consists of net position items that do not meet the definition of “restricted” or “net investment in capital assets, including State Water Project costs.” Certain unrestricted net position items have been designated for purposes authorized by the Board.

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. Unrestricted net position of \$335.2 million at March 31, 2021, was \$46.3 million higher than prior year which included changes in net position of \$104.0 million for the twelve months ended March 31, 2021 and \$54.4 million lower net investment in capital assets, including State Water Project costs, offset by \$112.1 million higher restricted for debt service and operating expenses.

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. Unrestricted net position of \$288.9 million at March 31, 2020, was \$8.6 million higher than the prior year which included changes in net position before contributions of \$114.9 million for the twelve months ended March 31, 2020, offset by \$71.2 million higher restricted for debt service, capital projects and operating expenses and \$35.1 million higher net investment in capital assets, including State Water Project costs.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
 March 31, 2021 and 2020
 (Unaudited)

CHANGES IN NET POSITION

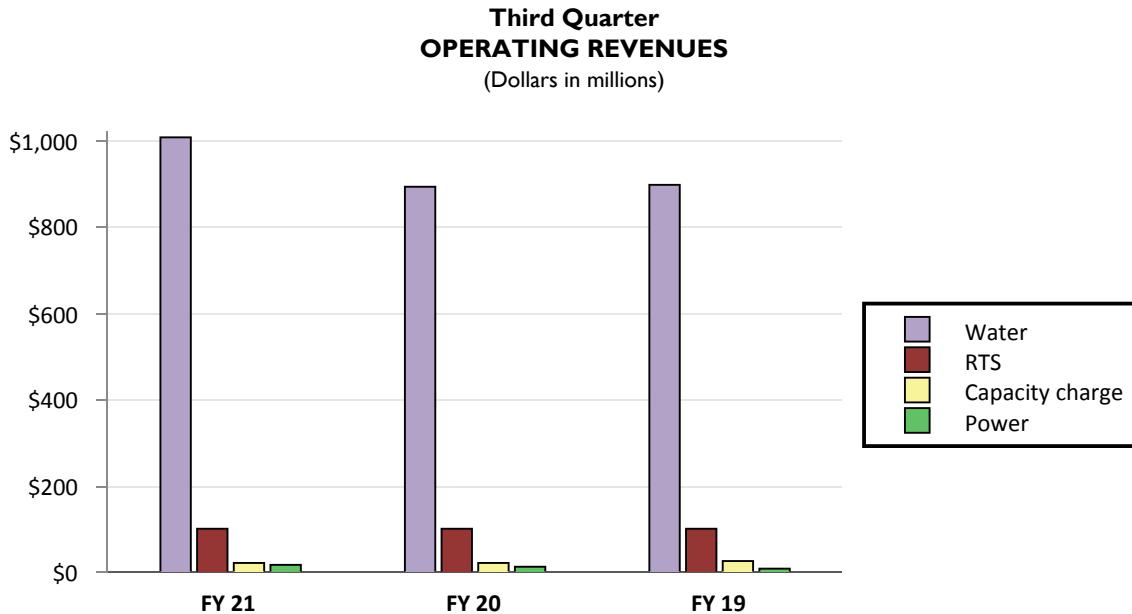
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	Nine Months Ended March 31,		
	2021	2020	2019
<i>(Dollars in millions)</i>			
Water revenues	\$ 1,008.2	\$ 891.0	\$ 897.3
Readiness-to-serve charges	100.5	100.5	103.3
Capacity charge	23.8	22.8	25.4
Power sales	16.7	14.9	8.4
Operating revenues	1,149.2	1,029.2	1,034.4
Taxes, net	114.5	107.4	97.7
Investment income, net	2.7	20.5	24.3
Other	6.4	14.4	8.1
Nonoperating revenues	123.6	142.3	130.1
Total revenues	1,272.8	1,171.5	1,164.5
Power and water costs	(365.3)	(322.5)	(290.1)
Operations and maintenance	(386.8)	(387.6)	(363.1)
Litigation payments	(44.4)	—	—
Depreciation and amortization	(269.5)	(258.0)	(255.5)
Operating expenses	(1,066.0)	(968.1)	(908.7)
Bond interest, net of amount capitalized	(68.5)	(77.9)	(89.2)
Loss on disposal of plant assets	(13.2)	(0.2)	—
Other	(3.3)	(4.2)	(10.9)
Nonoperating expenses	(85.0)	(82.3)	(100.1)
Total expenses	(1,151.0)	(1,050.4)	(1,008.8)
Changes in net position before contributions	121.8	121.1	155.7
Capital contributions	—	—	0.2
Changes in net position	121.8	121.1	155.9
Net position at June 30,	6,939.5	6,836.2	6,686.5
Net position at March 31,	\$ 7,061.3	\$ 6,957.3	\$ 6,842.4

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
 March 31, 2021 and 2020
 (Unaudited)

Operating Revenues

Metropolitan's principal source of revenue is derived from the sale and availability of water, including water rates and other exchange and wheeling transactions, which typically account for approximately 85 percent of operating revenues. Metropolitan's primary sources of water supply are the Colorado River and the State Water Project.



Analytical Review of Operating Revenues

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. For the nine months ended March 31, 2021, operating revenues were \$1.1 billion or \$120.0 million more than the prior year. The increase was primarily due to \$117.2 million of higher water revenues, which included \$85.1 million or 99.8 TAF of higher volumes sold and \$32.1 million of higher price.

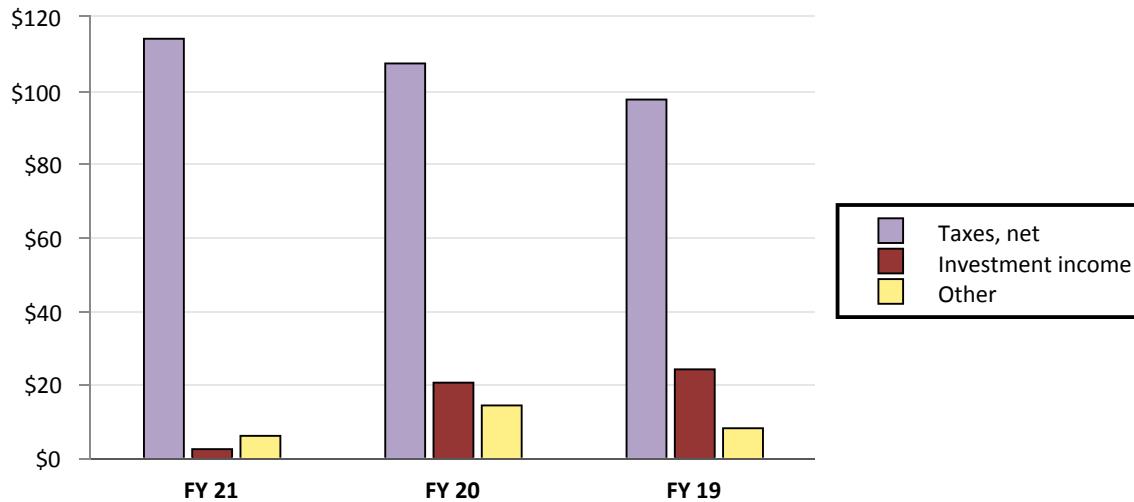
Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. For the nine months ended March 31, 2020, operating revenues were \$1.0 billion or \$5.2 million less than the prior year. The decrease was primarily due to \$6.3 million of lower water revenues, which included \$42.5 million or 51.9 TAF of lower volumes sold offset by \$36.2 million of higher price.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
March 31, 2021 and 2020
(Unaudited)

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.

**Third Quarter
NONOPERATING REVENUES**
(Dollars in millions)



Analytical Review of Nonoperating Revenues

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. Nonoperating revenues for the nine months ended March 31, 2021, totaled \$123.6 million and were \$18.7 million lower than the prior year primarily due to \$17.8 million lower investment income which included a \$11.2 million unfavorable change in fair value of investments and \$6.3 million lower rate of return. In addition, other revenues were \$8.0 million lower as the \$6.4 million adjustment related to an overstatement of depreciation expense in fiscal year 2020 did not occur in fiscal year 2021. These decreases were offset by \$7.1 million higher property tax revenues resulting from higher assessed values.

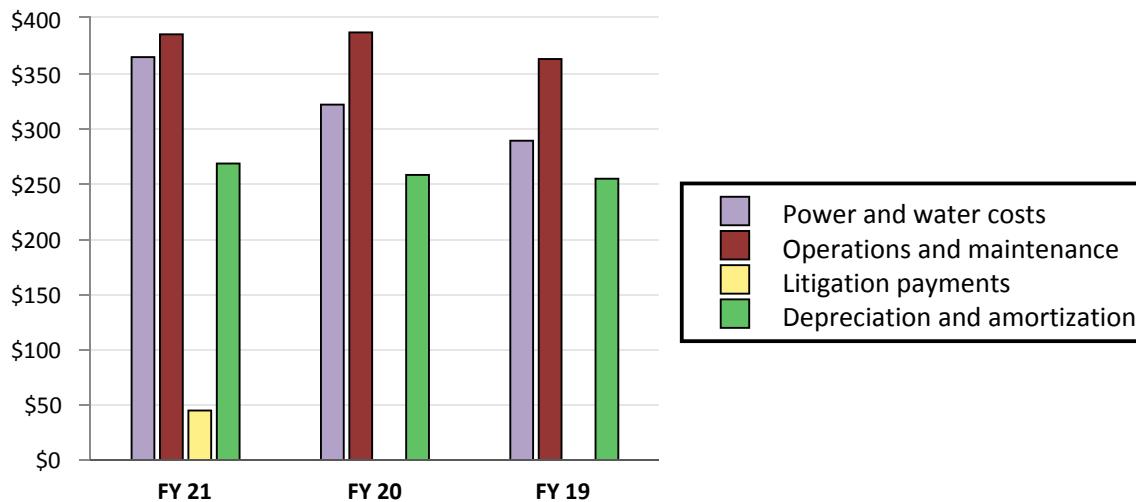
Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. Nonoperating revenues for the nine months ended March 31, 2020, totaled \$142.3 million and were \$12.2 million higher than the prior year primarily due to \$9.7 million higher property tax revenue resulting from higher assessed values.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
 March 31, 2021 and 2020
 (Unaudited)

Operating Expenses

Operating expenses fall into three primary cost areas: power and water, operations and maintenance (O&M), and depreciation and amortization.

**Third Quarter
OPERATING EXPENSES**
 (Dollars in millions)



Analytical Review of Operating Expenses

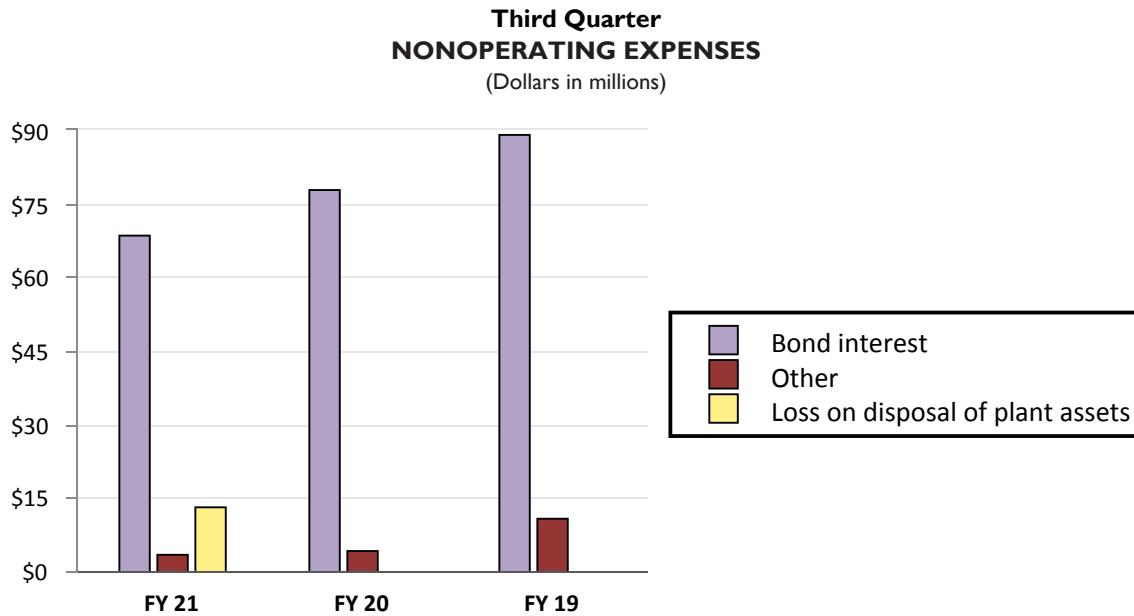
Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. For the nine months ended March 31, 2021, operating expenses of \$1.1 billion were \$97.9 million higher than the prior year. The increase included \$44.4 million litigation payment to the San Diego County Water Authority, see Note 6(g) for additional information, and \$42.8 million higher power and water expenses, as the credit for over collection of prior year's charges on SWP minimum OMP&R costs did not occur in fiscal year 2021. Additionally, depreciation and amortization expense increased \$11.5 million due to a net increase in capital assets of \$19.4 million.

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. For the nine months ended March 31, 2020, operating expenses of \$968.1 million were \$59.4 million higher than the prior year. Power and water expenses increased \$32.4 million due to an increase in the unit cost of water from prior year and O&M costs increased \$24.5 million primarily due to higher labor costs resulting from negotiations with bargaining units.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
 March 31, 2021 and 2020
 (Unaudited)

Nonoperating Expenses

The primary sources of nonoperating expenses are interest expense on bonds, loss on disposal of plant assets and other.



Analytical Review of Nonoperating Expenses

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. For the nine months ended March 31, 2021, nonoperating expenses of \$85.0 million were \$2.7 million higher than the prior year. The increase was primarily due to \$13.0 million of construction in progress costs written-off as a result of the recalculation of previously capitalized interest on construction partially offset by \$9.4 million reduction of bond interest, net of amount capitalized due to bond refunding transactions to take advantage of lower interest rates.

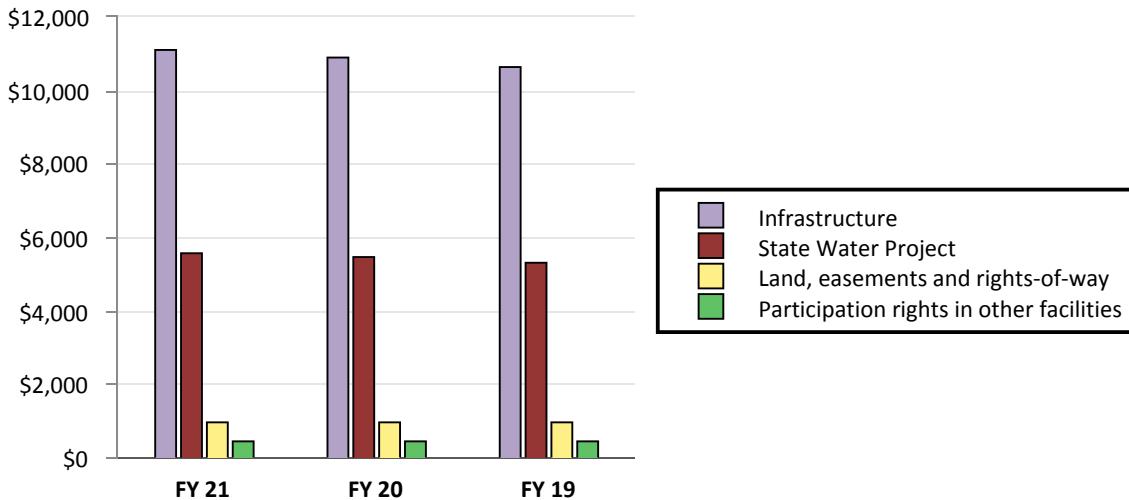
Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. For the nine months ended March 31, 2020, nonoperating expenses of \$82.3 million were \$17.8 million lower than the prior year. The decrease included \$11.3 million reduction of bond interest, net of amount capitalized due to bond refunding transactions to take advantage of lower interest rates and \$6.7 million of lower other expenses as the adjustment for the previously capitalized interest on construction did not occur in fiscal year 2020.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
March 31, 2021 and 2020
(Unaudited)

CAPITAL ASSETS

Capital assets include Metropolitan's water infrastructure, land and buildings, as well as participation rights in SWP and various other water programs. More detailed information on commitments for construction contracts are presented in Note 6(f) to the basic financial statements.

**Third Quarter
GROSS CAPITAL ASSETS**
(Dollars in millions)



Schedule of Capital Assets

(Dollars in millions)	March 31,		
	2021	2020	2019
Land, easements and rights of way	\$ 985.2	\$ 984.7	\$ 986.0
Construction in progress	760.5	779.9	743.6
Parker power plant and dam	13.0	13.0	13.0
Power recovery plants	220.7	210.6	216.2
Other dams and reservoirs	1,613.5	1,568.3	1,560.7
Water transportation facilities	4,003.7	3,892.6	3,874.6
Pumping plants and facilities	360.2	303.0	302.4
Treatment plants and facilities	3,133.5	3,185.8	2,969.8
Buildings	179.1	187.4	162.5
Other plant assets	795.4	750.2	745.1
Pre-operating expenses of original aqueduct	44.6	44.6	44.6
Participation rights in State Water Project	5,610.8	5,469.1	5,323.6
Participation rights in other facilities	459.0	459.0	459.0
Gross capital assets	18,179.2	17,848.2	17,401.1
Less accumulated depreciation and amortization	(7,599.0)	(7,287.4)	(6,957.9)
Total capital assets, net	\$ 10,580.2	\$ 10,560.8	\$ 10,443.2
Net increase (decrease) from prior year	\$ 19.4	\$ 117.6	\$ (158.0)
Percent change	0.2%	1.1%	(1.5%)

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
March 31, 2021 and 2020
(Unaudited)

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. Net capital assets totaled approximately \$10.6 billion and increased \$19.4 million over the prior year. The increase included \$301.9 million of construction spending and a net increase of \$141.7 million in participation rights in SWP, offset by depreciation and amortization of \$344.4 million and \$79.8 million retirements of capital assets and write-off of construction in progress related to a recalculation of previously capitalized interest on construction.

The major capital asset additions for the twelve months ended March 31, 2021, excluding capitalized interest, included:

- \$53.1 million for the improvements in infrastructure reliability at the treatment plants; this program will replace or refurbish facilities and components at Metropolitan's five water treatment plants in order to continue to reliably meet water demands.
- \$49.0 million for the Colorado River Aqueduct (CRA) supply reliability and system expansion program; this program is designed to improve the reliability and flexibility of delivering Colorado River water during drought or other SWP delivery constraints.
- \$43.1 million for the system reliability program, which is designed to improve or modify facilities throughout Metropolitan's service area in order to utilize new processes and/or technologies, and to improve facility safety and overall reliability.
- \$37.8 million for the distribution system's rehabilitation program; this program will replace or refurbish existing facilities within Metropolitan's distribution system including reservoirs, pressure control structures, hydroelectric power plants, and pipelines in order to reliably meet water demands.
- \$29.1 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to ensure long-term reliability of Metropolitan's PCCP lines water delivery.
- \$17.5 million for the system flexibility/supply reliability program; this program aims to increase the capacity and flexibility of Metropolitan's water supply and delivery infrastructure to meet service demands.

Metropolitan's fiscal year 2021 capital investment plan includes \$250.0 million principally for the Colorado River Aqueduct reliability programs, water treatment plants reliability program, systems and information technology improvements, distributions system rehabilitation projects, and the PCCP rehabilitation program.

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. Net capital assets totaled approximately \$10.6 billion and increased \$117.6 million over the prior year. This increase included \$344.5 million of construction spending and a net increase of \$145.5 million in participation rights in SWP and other facilities, offset by depreciation and amortization of \$352.7 million and \$19.7 million net retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred.

The major capital asset additions for the twelve months ended March 31, 2020, excluding capitalized interest, included:

- \$94.9 million for the PCCP program.
- \$58.5 million for the CRA supply reliability and system expansion program.
- \$46.9 million for the improvements in infrastructure reliability at the treatment plants program.
- \$44.4 million for the system reliability program.
- \$38.7 million for the distribution system's rehabilitation program.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
March 31, 2021 and 2020
(Uaudited)

DEBT ADMINISTRATION – LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

(Dollars in millions)	March 31,		
	2021	2020	2019
General obligation bonds (a)	\$ 26.8	\$ 37.3	\$ 48.1
Revenue bonds (a)	3,947.1	4,009.9	4,068.0
Revolving notes	46.8	46.8	46.8
Other, net (b)	477.9	338.0	206.5
	\$ 4,498.6	\$ 4,432.0	\$ 4,369.4
Increase (decrease) from prior year	\$ 66.6	\$ 62.6	\$ (89.2)
Percent change	1.5%	1.4%	(2.0%)

(a) Includes refunding bonds.

(b) Consists of unamortized bond discounts and premiums.

Third Quarter Fiscal 2021 Compared to Third Quarter Fiscal 2020. At March 31, 2021, outstanding bonds and other long-term obligations totaled \$4.5 billion, a net increase of \$66.6 million or 1.5 percent from the prior year. The increase included \$188.9 million in new revenue bonds and \$139.9 million increase in premiums and discounts, which included \$192.3 million increase related to bond refundings, as the premiums on new debt issued were more than the premiums outstanding on the debt refunded, offset by \$52.4 million related to scheduled amortization. These increases were offset by \$133.9 million of scheduled principal payments and \$128.3 million of bond refundings, as the new debt issued was less than the amount of debt refunded.

Third Quarter Fiscal 2020 Compared to Third Quarter Fiscal 2019. At March 31, 2020, outstanding bonds and other long-term obligations totaled \$4.4 billion, a net increase of \$62.6 million or 1.4 percent from the prior year. The increase included \$207.4 million in new revenue bonds and \$131.5 million increase in premiums and discounts, which included \$172.9 million increase related to bond refundings, as the premiums on new debt issued was more than the premiums outstanding on the debt refunded, offset by \$41.4 million related to scheduled amortization. These increases were offset by \$141.5 million of scheduled principal payments and \$134.8 million of bond refundings, as the new debt issued was less than the amount of debt refunded.

Additional information on Metropolitan's long-term debt can be found in Note 3 to the basic financial statements.

CREDIT RATINGS

Metropolitan's credit ratings at March 31, 2021 are shown below.

	Moody's Investors Service	Standard & Poor's Global	Fitch Ratings
General obligation bonds	Aaa	AAA	AA+
Water revenue bonds-fixed rate	Aa1	AAA	AA+
Water revenue bonds-variable rate	VMIG 1	A-1+	F1+
Subordinate water revenue bonds-fixed rate	N/A	AA+	AA+
Subordinate water revenue bonds-variable rate	N/A	A-1+	F1+

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
March 31, 2021 and 2020
(Unaudited)

COVID-19 PANDEMIC

The late 2019 outbreak of the new highly transmissible strain of coronavirus and the disease it causes (known as COVID-19), has spread across the globe. The World Health Organization (the “WHO”) declared the outbreak of COVID-19 to be a pandemic, and states of emergency were declared in the United States (the “U.S.”), the State of California, and numerous counties throughout the State, including in the six counties all or portions of which comprise the service area of Metropolitan. Metropolitan’s General Manager declared a state of emergency at Metropolitan in March 2020. The COVID-19 pandemic and the governmental actions to respond to and control the outbreak materially altered the behavior of people and disrupted business activity, resulting in a significant contraction of the national, state and local economies. Employment data released since the imposition of governmental restrictions on activities showed a dramatic increase in unemployment rates and, while some recovery of jobs has occurred, unemployment rates remain significantly above pre-pandemic levels. In addition, domestic and international stock markets experienced declines in market value following the onset of the outbreak. Although rebounds in the global financial markets have since occurred, price volatility remains.

With widespread vaccination currently underway worldwide, some of the domestic governmental-imposed “stay at home” orders and restrictions on operations of schools and businesses implemented to respond to and control the outbreak have been eased. The Governor of California has announced most statewide COVID-19 restrictions may be lifted by June 15, 2021, contingent on the status of certain public health metrics to be assessed at that time. Restrictions, however, may be re-imposed in various jurisdictions from time to time as local conditions warrant. It is not known with any level of certainty when a full re-opening of the economy will be achieved and sustained. The negative effects of the COVID-19 pandemic and its aftermath on global, national and local economies is widely expected to continue at least for the foreseeable future.

Metropolitan is monitoring and responding to the COVID-19 pandemic and ongoing developments surrounding it. Metropolitan has taken, and is taking, a number of steps to maintain continuity of its critical and essential business functions and avoid widespread impacts to its workforce from the COVID-19 outbreak. Metropolitan’s water system is deemed federally designated critical infrastructure, entitled to exemptions under governmental “stay at home” orders as needed to maintain continuity of operations. Metropolitan personnel necessary to the operation and delivery of water supplies remain on-site, with staffing strategies being utilized to protect the health of its employees and promote “social distancing.” Enhanced facility cleaning and disinfection practices have been put in place to promote a safe and healthful workplace for these employees. Telecommuting arrangements or paid administrative leave is being implemented for employees performing other functions, and non-essential business travel has been limited.

COVID-19 is not believed to present a threat to the safety of Metropolitan’s treated water supplies. Metropolitan has taken steps to ensure it has the necessary backup equipment, supplies and treatment chemicals in the event of disruptions to the procurement supply chain. To date, Metropolitan’s ability to treat and deliver water has not been impaired. Metropolitan has experienced an increase in certain costs, primarily expenses for personal protective equipment, enhanced cleaning procedures, technology costs to accommodate teleworking and other related expenditures. In aggregate, these increased expenses have been modest and are generally offset by reductions in travel and other office expenses. While Metropolitan initially paused certain construction work on non-essential capital

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
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projects at the onset of the COVID-19 outbreak, such activity has resumed and Metropolitan continues to advance a variety of infrastructure and system reliability projects.

Metropolitan also proactively responded to the anticipated effects of the ongoing COVID-19 pandemic likely to be experienced by its member agencies. Following the onset of the pandemic and response actions, many water service providers serving residential, commercial and industrial end-use customers (referred to herein as “retail water service providers”), which includes some Metropolitan member agencies and agencies that purchase water from them, implemented measures to assist their customers facing financial hardship as a result of the COVID-19 outbreak. In addition, as a measure to assure access to water service for citizens likely to be adversely impacted financially due to the economic effects of the ongoing COVID-19 pandemic, on April 2, 2020, Governor Newsom issued an executive order which, among other things, ordered the restoration of water service to residential customers in occupied residences whose service was discontinued for nonpayment during the state of emergency, and suspended the authority of retail water service providers to discontinue water service to residential and qualifying small business customers for non-payment for the duration of the state of emergency. These measures were expected to result in more late or non-payment of utility bills than normal and forecasted for retail water service providers generally, with the potential to create financial stress on retail water service providers, including some Metropolitan member agencies.

In recognition of the changed circumstances and the uncertainties created by the ongoing COVID-19 outbreak, in the weeks following the declaration of a pandemic by the WHO in March 2020, Metropolitan reviewed its preliminary biennial budget initially presented to the Board in February 2020, and modified certain assumptions previously made in the proposed budget. The biennial budget for fiscal years 2020-21 and 2021-22, and water rates and charges for calendar years 2021 and 2022 adopted by the Board on April 14, 2020, reflected these adjustments, which included (i) a reduction in the overall rate increases for calendar years 2021 and 2022 from those previously proposed; (ii) a reduction in capital expenditures for fiscal year 2020-21 in recognition of likely delays in scheduling of construction work as a result of COVID-19; (iii) a reduction in the internal funding objective for the funding of capital program expenditures from current revenues for fiscal year 2020-21; and (iv) to review the adopted budget and rates no later than September 2020 to consider further impacts resulting from the COVID-19 crisis.

As contemplated by the Board’s April 14, 2020 action, Metropolitan reviewed the impacts of the COVID-19 pandemic on Metropolitan’s biennial budget for fiscal years 2020-21 and 2021-22, and water rates and charges for calendar years 2021 and 2022 at its September 15, 2020 Board meeting. The Board determined to maintain the previously adopted rates and charges for calendar years 2021 and 2022 and approved certain cost containment measures, estimated to reduce Metropolitan expenditures by approximately \$10.7 million in fiscal year 2020-21, and by approximately \$1.0 million in fiscal year 2021-22. The Board also directed staff to develop a payment deferral program for member agencies that record and report significant customer payment delinquencies and likewise grant deferrals to their customers; evaluate potential new revenue-generating programs; and place a moratorium on non-emergency unbudgeted spending.

At its December 8, 2020 meeting, Metropolitan’s Board adopted the COVID-19 Member Agency Payment Deferment Program. Under the approved program, Metropolitan will provide up to a six-month deferral of a portion of a requesting member agency’s payment obligations owed to Metropolitan for water transactions equal to the

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

percentage of the member agency's own customers' delinquency rates, but not to exceed 10 percent of each monthly obligation. Additionally, under the program, late payments, penalties, and interest will be waived to the deferred amount over a period of up to 12 months. The program is available to all member agencies that meet Board-approved eligibility criteria and will apply to invoices for water transactions occurring only from January 1, 2021 to June 30, 2021. All amounts deferred under the program will be due and payable no later than December 29, 2021. To the extent that member agencies participate in the program, the COVID-19 Member Agency Payment Deferment Program is expected to result in a shift of some revenue collections from fiscal year 2020-21 to fiscal year 2021-22. As of May 1, 2021, no member agencies have applied for the COVID-19 Member Agency Deferment Program.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (the "ARP Act"), a \$1.9 trillion economic stimulus package designed to help the United States' economy recover from the adverse impacts of the COVID-19 pandemic. The ARP Act includes approximately \$350.0 billion in aid to state and local governments, consisting of both direct funding from the United States Department of Treasury and program moneys that will flow from other federal agencies. Half of the aid to state and local governments will be distributed in spring 2021, with the other half following in 2022. Although Metropolitan may seek ARP Act funds from the State, it is unclear at this time how the State will allocate such funds. The State Treasury is expected to release future guidance in the coming weeks. Metropolitan may also receive refundable employee tax credits for paid sick and family medical leaves provided due to the COVID-19 pandemic.

The COVID-19 outbreak is ongoing and developments will continue. The ultimate degree of impact to Metropolitan's finances and operations is difficult to predict due to the evolving nature of the COVID-19 pandemic, including uncertainties relating thereto. The extent of the fiscal impacts on Metropolitan will depend on, among other things, (i) the duration of the stay-at-home orders and the extent to which the disruption to or decline in the local and global economies and financial markets persists; (ii) the effectiveness of and ability to reach wide spread distribution of vaccines and the period of time therefor; (iii) the degree to which business closures, continued increased unemployment, housing foreclosures and/or other economic consequences occur that could reduce water demands in the region and, in turn, Metropolitan's water transactions, or that could negatively affect future property values in Metropolitan's service area and/or Metropolitan's property tax levy receipts which singularly or collectively could reduce Metropolitan's projected revenues; (iv) the ramifications of future actions that may be taken or required by governmental authorities to respond to the effects of the pandemic, including additional stimulus efforts by the federal government; (v) the pace at which the economy can re-open; and (vi) the speed of the ensuing economic recovery. If the COVID-19 pandemic and/or the economic recovery is prolonged, the likelihood or magnitude of potential adverse impacts to Metropolitan's finances or operations from the factors discussed herein or from other factors, could be increased. To date, Metropolitan does not believe the impacts of the COVID-19 pandemic will have a material adverse impact on its ability to pay debt service on its bonds or other debt obligations.

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENTS OF NET POSITION

(Dollars in thousands)	March 31,	
	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
(Unaudited)		
Current Assets:		
Cash and investments, at fair value (Notes 1d and 2):		
Unrestricted (cost: \$400,186 and \$403,539 for fiscal years 2021 and 2020, respectively)	\$ 401,071	\$ 406,159
Restricted (cost: \$529,728 and \$416,796 for fiscal years 2021 and 2020, respectively)	530,900	419,503
Total cash and investments	931,971	825,662
Receivables:		
Water revenues	183,674	149,036
Interest on investments	2,195	3,678
Other, net (Note 1f)	88,127	84,708
Total receivables	273,996	237,422
Inventories (Note 1g)	111,617	114,834
Deposits, prepaid costs, and other (Note 8)	59,665	63,746
Total current assets	1,377,249	1,241,664
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1d and 2):		
Unrestricted (cost: \$317,188 and \$261,378 for fiscal years 2021 and 2020, respectively)	317,890	263,075
Restricted (cost: \$46,620 and \$46,277 for fiscal years 2021 and 2020, respectively)	46,886	46,742
Total cash and investments	364,776	309,817
Capital assets:		
Plant and equipment - non depreciable (Notes 1h and 6f)	1,745,683	1,764,622
Plant and equipment - depreciable (Notes 1h and 6f)	10,363,740	10,155,478
Participation rights in State Water Project (Notes 1i and 7)	5,610,783	5,469,102
Participation rights in other facilities (Note 1i)	459,049	459,049
Total capital assets	18,179,255	17,848,251
Less accumulated depreciation and amortization	(7,599,045)	(7,287,431)
Total capital assets, net	10,580,210	10,560,820
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 8)	389,297	363,157
Total other assets	389,297	363,157
Total noncurrent assets	11,334,283	11,233,794
Total assets	12,711,532	12,475,458
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1n)	13,860	20,857
Loss on swap terminations (Note 1n)	18,175	16,411
Pension related (Notes 1l, 1n, and 4)	85,243	106,935
OPEB related (Notes 1m, 1n, and 5)	33,506	32,067
Effective swaps (Note 1n)	—	14,591
Total deferred outflows of resources	150,784	190,861
Total Assets and Deferred Outflows of Resources	\$ 12,862,316	\$ 12,666,319

See accompanying notes to basic financial statements.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENTS OF NET POSITION

	March 31,	
(Dollars in thousands)	2021	2020
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		(Unaudited)
Current Liabilities:		
Accounts payable and accrued expenses (Note 1j)	\$ 108,567	\$ 94,777
Revolving Notes (Note 3a)	46,800	—
Current portion of long-term debt	843,034	324,701
Current portion of accrued compensated absences (Note 1k)	24,700	22,000
Current portion of customer deposits and trust funds	7,653	7,449
Current portion of workers' compensation and third party claims (Note 11)	4,122	4,884
Current portion of other long-term liabilities	79,279	77,551
Accrued bond interest	40,313	38,358
Matured bonds and coupons not presented for payment	1,702	1,664
Total current liabilities	1,156,170	571,384
Noncurrent Liabilities:		
Long-term debt, net of current portion	3,608,818	4,060,467
Revolving notes (Note 3a)	—	46,800
Accrued compensated absences, net of current portion (Note 1k)	32,966	27,895
Customer deposits and trust funds, net of current portion	46,257	45,390
Net pension liability (Note 4)	668,995	634,037
Net OPEB liability (Note 5)	147,974	208,013
Workers' compensation and third party claims, net of current portion (Note 11)	12,120	9,827
Fair value of interest rate swaps (Note 3e)	50,711	71,490
Other long-term liabilities, net of current portion	2,186	2,204
Total noncurrent liabilities	4,570,027	5,106,123
Total liabilities	5,726,197	5,677,507
Commitments and Contingencies (Note 6)		
Deferred Inflows of Resources:		
Effective swaps (Note 1n)	6,188	—
Pension related (Notes 1l, 1n and 4)	21,298	24,207
OPEB related (Notes 1m, 1n, and 5)	47,337	7,288
Total deferred inflows of resources	74,823	31,495
Total Liabilities and Deferred Inflows of Resources	5,801,020	5,709,002
Net Position (Note 10):		
Net investment in capital assets, including State Water Project costs	6,143,876	6,198,328
Restricted for:		
Debt service	216,033	186,443
Capital projects	91,451	44,364
Other	274,718	239,288
Unrestricted	335,218	288,894
Total net position	7,061,296	6,957,317
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 12,862,316	\$ 12,666,319

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

(Dollars in thousands)	Nine Months Ended March 31,	
	2021	2020
Operating Revenues (Note 1c):		(Unaudited)
Water revenues	\$ 1,008,239	\$ 890,984
Readiness-to-serve charges	100,500	100,500
Capacity charge	23,787	22,855
Power sales	16,700	14,899
Total operating revenues	1,149,226	1,029,238
Operating Expenses:		
Power and water costs	365,357	322,501
Operations and maintenance	386,888	387,606
Litigation payments (Note 6g)	44,374	—
Total operating expenses	796,619	710,107
Operating income before depreciation and amortization	352,607	319,131
Less depreciation and amortization	(269,507)	(257,971)
Operating income	83,100	61,160
Nonoperating Revenues (Expenses) (Note 1p):		
Taxes, net (Note 1e)	114,514	107,370
Bond interest, net of \$5,200 and \$7,600 of interest capitalized in fiscal years 2021 and 2020 (Note 1h)	(68,510)	(77,857)
Investment income, net	2,728	20,449
Loss on disposal of plant assets	(13,170)	(175)
Other, net	3,129	10,171
Total nonoperating revenues, net	38,691	59,958
Changes in Net Position	121,791	121,118
Net position at June 30, 2020 and 2019	6,939,505	6,836,199
Net position at March 31, 2021 and 2020	\$ 7,061,296	\$ 6,957,317

See accompanying notes to basic financial statements.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months Ended March 31,	
	2021	2020
Cash Flows from Operating Activities:		(Unaudited)
Cash received from water sales	\$ 924,841	\$ 812,869
Cash received from readiness-to-serve charges	82,299	79,936
Cash received from capacity charge	18,981	18,509
Cash received from power sales	12,100	15,648
Cash received from other exchange transactions	123,464	99,351
Cash paid for operations and maintenance expenses	(192,364)	(206,602)
Cash paid to employees for services	(205,956)	(190,490)
Cash paid for power and water costs	(350,726)	(399,019)
Cash paid for litigation	(44,374)	—
Other cash flows for operating activities	1,225	1,023
Net cash provided by operating activities	369,490	231,225
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	6,144	5,910
Net cash provided by noncapital financing activities	6,144	5,910
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(196,667)	(271,069)
Payments for State Water Project costs	(181,635)	(125,612)
Proceeds from short and long-term debt	255,000	270,000
Payments for bond issuance costs	(1,294)	(2,768)
Principal paid on debt	(133,825)	(141,500)
Interest paid on debt	(133,035)	(127,039)
Proceeds from tax levy	96,531	88,213
Transfer (to) from escrow trust accounts	(39,312)	1,453
Net cash used by capital and related financing activities	(334,237)	(308,322)
Cash Flows from Investing Activities:		
Purchase of investment securities	(2,464,980)	(2,251,377)
Proceeds from sales and maturities of investment securities	2,413,059	2,310,138
Investment income	10,628	12,409
Net cash (used) provided by investing activities	(41,293)	71,170
Net change in cash	104	(17)
Cash at July 1, 2020 and 2019	161	22
Cash at March 31, 2021 and 2020 (Notes 1b and 2a)	\$ 265	\$ 5

See accompanying notes to basic financial statements.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31,	
(Dollars in thousands)	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
(Unaudited)		
Operating Income	\$ 83,100	\$ 61,160
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization expense	269,507	257,971
Decrease in accounts receivable	45,271	22,609
Decrease in inventories	6,848	8,169
Increase in deposits, prepaid costs, and other	(70,529)	(103,905)
Increase (decrease) in accounts payable, and accrued expenses	3,061	(45,095)
Increase in other items	32,232	30,316
Total Adjustments	<u>286,390</u>	170,065
Net cash provided by operating activities	\$ 369,490	\$ 231,225
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	\$ 370,417	\$ —
Debt defeased through escrow trust fund with refunding debt	\$ (368,935)	\$ —
RECONCILIATION OF CASH AND INVESTMENTS TO CASH		
Unrestricted cash and investments (at March 31, 2021 and 2020 includes \$265 and \$5 of cash, respectively)	\$ 718,961	\$ 669,234
Restricted cash and investments	<u>577,786</u>	466,245
Total cash and investments, at fair value	1,296,747	1,135,479
Less: carrying value of investments	(1,296,482)	(1,135,474)
Total Cash (Notes 1b and 2a)	\$ 265	\$ 5

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

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(Unaudited)

I. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Metropolitan Water District of Southern California (Metropolitan), a special district of the State of California, was organized in 1928 by vote of the electorates of several Southern California cities following adoption of the Metropolitan Water District Act (Act) by the California Legislature. Metropolitan's primary purposes under the Act are to develop, store, and distribute water, at wholesale, to its member public agencies for domestic and municipal purposes. Surplus water is sold for other beneficial uses, including agricultural use. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura. There are 26 independent member agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan has no financial accountability for its member agencies. Metropolitan is governed by a 38-member Board of Directors (Board) comprised of representatives of the member agencies. Representation and voting rights are based on assessed valuations of property pursuant to Sections 52 and 55 of the Act. Each member agency is entitled to have at least one representative on the Board plus an additional representative for each full five percent of the assessed valuation of real property within the jurisdictional boundary of each member agency. Changes in relative assessed valuation do not terminate any director's term. Accordingly, the Board may, from time to time, have more or fewer than 38 directors. However, effective January 1, 2020, no member agency shall have fewer than the number of representatives the agency had as of January 1, 2019. No single member agency has a voting majority.

The Metropolitan Water District Asset Financing Corporation (MWDAFC) was incorporated on June 19, 1996. The MWDAFC is a California nonprofit public benefit corporation formed to assist Metropolitan by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by Metropolitan and leasing or selling such property to Metropolitan. The MWDAFC is governed by a board of five directors, each of whom must be a member of Metropolitan's Board. MWDAFC had no financial operations during the nine months ended March 31, 2021 or 2020. MWDAFC is a component unit of Metropolitan and its activities will be blended with those of Metropolitan for financial reporting purposes should it commence operations.

(b) Principles of Presentation

Metropolitan operates as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting. The accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under full accrual accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

For purposes of the statements of cash flows, Metropolitan defines cash as demand account balances and cash on hand.

(c) Revenue Policies

Water revenues, which include funds received from charges for the sale and availability of water, including water rates and other exchange and wheeling transactions, are the principal source of Metropolitan's revenues. Other sources of operating revenue include readiness-to-serve charges, capacity charge, and hydroelectric power sales. Other revenues include ad valorem property taxes and investment income.

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NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

Water rates are established by the Board on a biennial basis. Water rates are supported by cost of service studies. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Water is delivered to the member agencies on demand and revenue is recognized at the time of sale.

Metropolitan's rate structure consists of unbundled rate elements (supply, treatment, conveyance and distribution, power, and demand management) designed to provide transparency regarding the cost of specific functions to member agencies. It is designed to improve regional water resources management and accommodate a water transfer market. The rate structure also includes tiered pricing for supply, a capacity charge, and a readiness-to-serve charge.

(d) Fair Value Measurements

Metropolitan categorizes the fair value measurements for assets and liabilities within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs of assets and liabilities as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date; Level 2 inputs are inputs—other than quoted prices—that are observable for identical assets or liabilities, either directly or indirectly; and Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Metropolitan reports its investments and liabilities using valuation techniques consistent with market and cost approaches to determine the fair value.

(e) Taxing Authority

Metropolitan is expressly empowered under the Act to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the California Revenue and Taxation Code, and the California Constitution. Property taxes are levied annually by the Board effective as of July 1, using a lien date of January 1, and are payable by property owners in two equal installments that are due on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Property taxes levied by Metropolitan are billed and collected by the counties in its service area and are remitted to Metropolitan periodically throughout the year.

Property tax revenue is used to pay Metropolitan's general obligation bond debt service and a portion of its obligations under its contract with the state for a water supply and participation in the SWP (the State Water Contract). In setting the annual levy, Metropolitan takes into account potential delinquencies, tax allocations to the successor agencies of former redevelopment agencies, and supplemental tax collections. Metropolitan recognizes property taxes receivable on July 1 of each fiscal year and recognizes revenue over the following 12-month period beginning July 1 through June 30 (the period for which the tax is levied).

As a result of legislation enacted in 1984, commencing with the fiscal year ended June 30, 1991, tax levies, other than annexation taxes, are limited to the amount needed to pay debt service on Metropolitan's general obligation bonds and Metropolitan's proportionate share of general obligation bond debt service of the state under the State Water Contract. However, under the terms of the 1984 legislation, the Board may suspend this particular restriction upon a finding that doing so is essential to Metropolitan's fiscal integrity. The Board made such a finding for fiscal years ended June 30, 2014 through 2021, and maintained the tax rate for those fiscal years at the rate levied during

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NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2021 and 2020

(Unaudited)

fiscal year ended June 30, 2013 to pay a portion of State Water Contract costs other than general obligation debt service.

(f) Other Receivables

Other receivables include amounts for taxes, hydroelectric power sales, readiness-to-serve charges, and other billings.

(g) Inventories

Metropolitan's inventories are valued based on a moving-average cost. Expenses are recorded when inventories are used. Components of inventories at March 31, 2021 and 2020 were as follows:

	March 31,	
	2021	2020
(Dollars in thousands)		
Water in storage	\$ 95,633	\$ 99,819
Operating supplies	15,984	15,015
Total inventories	\$ 111,617	\$ 114,834

(h) Capital Assets

Metropolitan's capital assets include plant and equipment, which are recorded at cost. Construction costs are capitalized if they exceed \$50,000 and the asset has a useful life of at least five years. The cost of constructed assets may include labor, materials, certain general and administrative expenses, and interest incurred during construction periods. Depreciation is calculated using the straight-line method based on the estimated average useful lives of the assets, which are 10 to 80 years for buildings, storage, distribution facilities, and miscellaneous assets and 10 to 50 years for treatment plants and hydroelectric power recovery facilities. Improvements or refurbishments with aggregated costs that meet capitalization thresholds and that extend the useful life of an existing asset by at least 5 years are capitalized.

Major computer systems software, whether purchased or internally developed, is capitalized if the cost exceeds \$250,000 and the useful life is at least three years. Vehicles and operating equipment are capitalized if the cost equals or exceeds \$5,000 and the useful life is at least four years. Depreciation is calculated using the straight-line method based on the estimated useful lives and ranges from 3 to 10 years for major computer systems software and 4 to 10 years for vehicles and operating equipment.

(i) Participation Rights

Metropolitan participates in various storage and water management programs entitling it to certain water rights. Projects include the SWP and various storage and water management programs. Metropolitan's participation in these projects is through cash payments. The value of participation rights is equal to the amounts spent for the construction of capital assets, such as pipelines, pumping facilities, and storage facilities, and amortized over the life of the agreements. These assets are not owned by Metropolitan. Certain projects also require payments for ongoing maintenance; those payments are charged to expense as incurred. (See Note 7.)

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS**(CONTINUED)**

March 31, 2021 and 2020

(Unaudited)

(j) Disaggregation of Payable Balances

Accounts payable and accrued expenses at March 31, 2021 and 2020 were as follows:

(Dollars in thousands)	March 31,	
	2021	2020
Department of Water Resources (SWP):		
Capital, operating, maintenance, power, replacement, and variable power	\$ 69,299	\$ 48,952
Vendors	28,300	34,927
Accrued power costs	2,067	1,998
Accrued salaries	6,842	5,673
Conservation credits	2,059	3,227
Total accounts payable and accrued expenses	\$ 108,567	\$ 94,777

(k) Compensated Absences

Metropolitan's employees earn vacation, sick, and compensatory leave in varying amounts depending primarily on length of service. Upon termination from Metropolitan service, employees are entitled to full payment for accrued vacation and compensatory leave at their final pay rates, and are entitled to payment for approximately one-half of their accrued sick leave at such rates. Metropolitan records its obligations for vacation, sick, and compensatory leave earned by eligible employees based on current pay rates. The allocations to the current and long-term portions of these vested obligations were based on experience and projections of turnover.

(l) Pension Accounting

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD): June 30, 2019

Measurement Date (MD): June 30, 2020

Measurement Period: July 1, 2019 to June 30, 2020

(m) OPEB Accounting

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Metropolitan's plan (OPEB Plan), the assets of which are held by the California Employer's Retiree Benefit Trust (CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

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NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD): June 30, 2019

Measurement Date (MD): June 30, 2020

Measurement Period: July 1, 2019 to June 30, 2020

(n) Deferred Outflows/Inflows of Resources

The net investment in capital assets, including State Water Project costs of \$6.1 billion and \$6.2 billion at March 31, 2021 and 2020, includes the effect of deferring the recognition of losses from bond refundings. The deferred outflows from losses on bond refundings at March 31, 2021 and 2020 were \$13.9 million and \$20.9 million, respectively. This is amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old or the new debt, whichever is shorter.

The unrestricted net position amount of \$335.2 million and \$288.9 million at March 31, 2021 and 2020, respectively, includes the effect of deferring the recognition of losses from swap terminations resulting in defeasance of debt, the increase or decrease in fair value of Metropolitan's effective interest rate swaps, and deferred amounts related to pension and OPEB.

The deferred outflows from losses on swap terminations resulting in debt defeasance at March 31, 2021 and 2020, respectively, were \$18.2 million and \$16.4 million. These deferred outflows of resources are amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The deferred outflows related to pension at March 31, 2021 and 2020 were \$85.2 million and \$106.9 million, respectively. The deferred inflows related to pension at March 31, 2021 and 2020 were \$21.3 million and \$24.2 million, respectively.

The deferred outflows related to OPEB at March 31, 2021 and 2020 were \$33.5 million and \$32.1 million, respectively. The deferred inflows related to OPEB at March 31, 2021 and 2020 were \$47.3 million and \$7.3 million, respectively.

Deferred outflows and inflows of resources related to the net difference between projected and actual earnings on pension and OPEB plan investments are amortized on a straight-line basis over five years. All other deferred outflows and inflows of resources related to pension and OPEB are amortized on a straight-line basis over the expected average remaining service lives of all members with benefits as of the beginning of the measurement period.

The deferred inflow from the increase in fair value of interest rate swaps of \$6.2 million and the deferred outflow from the decrease in fair value of interest rate swaps of \$14.6 million at March 31, 2021 and 2020, respectively, would be recognized as an investment gain or loss, respectively, upon the early termination of the swaps. Metropolitan will only terminate its interest rate swap agreements in advance of the contractual termination dates if

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

market conditions permit. The deferred outflow and deferred inflow would also be recognized as an investment loss or gain, respectively, if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred outflow or deferred inflow would be reduced and the deferred loss or deferred gain on refunding, respectively, would be increased by the same amount. The deferred loss or deferred gain would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

(o) Capital Contributions

Capital contributions are comprised of federal, state, and private grants. These grants are typically of a reimbursable nature: Metropolitan first pays for the project and then the granting agency reimburses Metropolitan for its eligible expenses. The portion of the grants restricted for capital purposes are reflected as capital contributions in the Statements of Revenues, Expenses and Changes in Net Position when they are earned, irrespective of the timing of the receipts. Examples of capital projects where grants are received include water treatment plant improvements, such as fluoridation and water storage programs.

(p) Operating and Nonoperating Revenues and Expenses

Metropolitan's primary purpose is to provide a supplemental supply of water for domestic and municipal uses. Accordingly, Metropolitan defines operating revenues as revenues derived from the sale and availability of water, including water rates and other exchange and wheeling transactions. It also includes readiness-to-serve charges, capacity charge, and hydroelectric power sales. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization of capital assets.

Revenues from property taxes and investment income, as well as interest expense on outstanding debt, are related to capital and financing activities and are defined as nonoperating revenues and expenses.

(q) Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is Metropolitan's practice to use restricted resources first, then unrestricted resources as they are needed.

(r) Use of Estimates

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) New Accounting Pronouncements

In May 2020, the GASB issued Statement No. 95 (GASB 95), Postponement of the Effective Dates of Certain Authoritative Guidance, with the primary objective of providing temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. As a result of GASB 95, all GASB Statements that would have been applicable in fiscal year 2020 were delayed until fiscal year 2021 or later, as noted on the next page.

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NOTES TO BASIC FINANCIAL STATEMENTS

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March 31, 2021 and 2020

(Unaudited)

Metropolitan is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements that will be implemented in a future fiscal year:

- GASB Statement No. 84, *Fiduciary Activities* (effective for fiscal year 2021).
- GASB Statement No. 87, *Leases* (effective for fiscal year 2022).
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (effective for fiscal year 2022).
- GASB Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61* (effective for fiscal year 2021).
- GASB Statement No. 92, *Omnibus 2020* (effective for fiscal year 2022).
- GASB Statement No. 93, *Replacement of Interbank Offered Rates* (effective for fiscal year 2022).
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (effective for fiscal year 2023).
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (effective for fiscal year 2023).
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* (effective for fiscal year 2022).

The following pronouncements were issued by GASB but were determined to not be applicable to Metropolitan's financial statements:

- GASB Statement No. 91, *Conduit Debt Obligations*.

2. CASH AND INVESTMENTS

As a public agency, Metropolitan's investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. Metropolitan's statement of investment policy is approved annually by the Board and describes the Treasurer's investment authority, practices, and limitations. The basic investment policy objectives, in order of importance, are safety of principal, liquidity, and return on investment.

Cash and investments may or may not be restricted as to use, depending on the specific purposes for which such assets are held (see Notes 2d and 10).

A summary of Metropolitan's deposit and investment policies, information on interest and credit risks, and restricted cash and investments is provided below.

(a) Deposits

The California Government Code requires California banks and savings and loan associations to secure a local government agency's deposits by pledging government securities as collateral.

As of March 31, 2021 and 2020, Metropolitan's cash balance with financial institutions were \$259,900 and \$400, respectively, and cash on hand was \$5,000 at each year-end.

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NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2021 and 2020

(Unaudited)

(b) Investments

Metropolitan is permitted by State law and Board policy to invest in a variety of instruments including U.S. Treasury securities, federal agencies, Supranationals, asset-backed, repurchase agreements, negotiable certificates of deposit, bankers' acceptances, prime commercial paper, Government-sponsored enterprise (GSE), California local agency securities, including securities issued by Metropolitan, medium-term corporate notes, time deposits, investment contracts, money market funds, California Asset Management Program (CAMP), and Local Agency Investment Fund (LAIF).

As of March 31, 2021 and 2020, Metropolitan had the following investments at fair value:

(Dollars in thousands)	March 31,	
	2021	2020
Negotiable certificates of deposit	\$ 249,170	\$ 140,860
Prime commercial paper	230,071	136,615
CAMP	214,879	166,102
Medium-term corporate notes	206,183	218,683
U.S. Treasury securities	131,182	133,555
LAIF	75,000	75,000
Supranationals	67,355	53,570
Asset-backed securities	41,134	42,012
GSE	35,858	61,580
Federal agency securities	34,731	103,249
Municipal bonds	7,329	2,140
Money market funds	3,590	2,108
Total investments	<u>\$ 1,296,482</u>	<u>\$ 1,135,474</u>

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

Metropolitan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The following is the summary of the fair value hierarchy of the fair value of investments of Metropolitan as of March 31, 2021 and 2020:

	Fair Value Measurement Using					
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs		
(Dollars in thousands)	3/31/2021	(Level 1)	3/31/2020	(Level 1)	(Level 2)	
Investments by fair value level:						
Negotiable certificates of deposit	\$ 249,170	\$ 249,170	\$ —	\$ 140,860	\$ 130,874	\$ 9,986
Prime commercial paper	230,071	39,963	190,108	136,615	—	136,615
Medium-term corporate notes	206,183	206,183	—	218,683	218,683	—
U.S. Treasury securities	131,182	131,182	—	133,555	133,555	—
Supranationals	67,355	67,355	—	53,570	53,570	—
Asset-backed securities	41,134	41,134	—	42,012	42,012	—
GSE	35,858	35,858	—	61,580	61,580	—
Federal agency securities	34,731	34,731	—	103,249	103,249	—
Municipal bonds	7,329	7,329	—	2,140	2,140	—
Total investments by fair value level	<u>\$ 1,003,013</u>	<u>\$ 812,905</u>	<u>\$ 190,108</u>	<u>\$ 892,264</u>	<u>\$ 745,663</u>	<u>\$ 146,601</u>
Investments not subject to fair value level:						
CAMP	214,879			166,102		
LAIF	75,000			75,000		
Money market funds ⁽¹⁾	3,590			2,108		
Total investments	<u>\$ 1,296,482</u>			<u>\$ 1,135,474</u>		

⁽¹⁾ As of March 31, 2021 and 2020, the balance was invested in Dreyfus Government Cash Management, Dreyfus AMT-Free Tax Exempt Cash Management (DGCXX & DEIXX) and BlackRock Treasury Trust (TTTXX).

Investments classified in Level 1 of the fair value hierarchy, valued at \$812.9 million and \$745.7 million as of March 31, 2021 and 2020, respectively, are valued using quoted prices in active markets.

Prime commercial paper totaling \$190.1 million and \$136.6 million as of March 31, 2021 and 2020, respectively, and negotiable certificates of deposit totaling \$10.0 million as of March 31, 2020, classified in Level 2 of the fair value hierarchy were valued using matrix pricing.

Metropolitan owns investments utilizing a stable one dollar per share value. These investment assets are exempt from reporting under the fair value measurement levels. There are no redemption restrictions for the investments reported at a value of one dollar per share.

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NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

Interest rate risk. In accordance with Metropolitan's investment policy, interest rate risk was managed by limiting the duration of the various portfolio segments. Each segment has limitations on the amount of duration exposure (see the following for specific durations).

Liquidity Segment

This segment of the portfolio was managed against the Intercontinental Exchange Bank of America Merrill Lynch (ICE BoAML) 3-Month Treasury Bill Index, approved by the Finance and Insurance Committee. The benchmark duration as of March 31, 2021 and 2020 was 0.23 and 0.16, respectively, and the portfolio duration was permitted to vary from the benchmark by plus or minus 0.50. As of March 31, 2021 and 2020, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	March 31,			
	2021	2020	Fair value	Duration
Negotiable certificates of deposit	\$ 249,170	0.60	\$ 140,860	0.43
Prime commercial paper	230,071	0.25	136,615	0.23
CAMP	214,879	—	166,102	—
Medium-term corporate notes	151,452	0.68	144,852	0.56
U.S. Treasury securities	34,750	0.32	75,735	1.05
LAIF	75,000	—	75,000	—
Supranationals	59,881	1.11	53,570	0.52
Asset-backed securities	39,987	1.77	42,012	2.40
Federal agency securities	32,071	1.85	102,573	0.56
Municipal bonds	6,105	0.67	785	4.31
Money market funds	2,086	—	1	—
Total portfolio segment	\$ 1,095,452		\$ 938,105	
Portfolio duration		0.48		0.47

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NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

Core Segment

This segment of the portfolio was managed against the ICE BoAML, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. The benchmark duration as of March 31, 2021 and 2020 were 2.69 and 2.55, respectively, and the portfolio duration was permitted to vary from the benchmark by plus or minus 1.50. As of March 31, 2021 and 2020, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	March 31,			
	2021		2020	
	Fair value	Duration	Fair value	Duration
Medium-term corporate notes	\$ 54,731	2.61	\$ 73,831	1.93
U.S. Treasury securities	95,303	2.92	54,716	3.51
Supranationals	7,474	3.10	—	—
Asset-backed securities	1,147	2.01	—	—
GSE	35,858	1.77	61,580	1.80
Money market funds	1,059	—	1,525	—
Total portfolio segment	\$ 195,572		\$ 191,652	
Portfolio duration		2.61		2.33

Bond Reserves and Lake Mathews Segment

Investments in the bond reserves were managed based on the requirements of each of the bond issues. The Lake Mathews trust funds were managed in a manner that preserved the principal and provided the necessary liquidity to pay its operating expenses. Per Board authorization, the Treasurer was authorized to invest these monies in excess of five years.

As of March 31, 2021 and 2020, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	March 31,			
	2021		2020	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 1,129	0.30	\$ 3,104	1.09
Federal agency securities	2,660	1.53	676	1.48
Municipal bonds	1,224	2.92	1,355	3.42
Money market funds	445	—	582	—
Total portfolio segment	\$ 5,458		\$ 5,717	
Weighted average duration		1.46		1.58

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NOTES TO BASIC FINANCIAL STATEMENTS**(CONTINUED)**

March 31, 2021 and 2020

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Credit risk. Credit risk was managed by purchasing investments with the nationally recognized credit ratings specified in Metropolitan's investment policy. Additionally, the policy required monitoring the credit ratings of securities held in the portfolio, and if the securities' credit ratings were downgraded, evaluating for potential sale. For certain securities, additional requirements included consideration of net worth, length of time in business, and specified market values.

Presented in the following table is the minimum rating required, if applicable, by investment type pursuant to Metropolitan's investment policy and State law:

Investment Type	Minimum Rating
U.S. Treasury	Not applicable.
Federal Agency Obligations	
GSE	
Bankers' acceptances	A-1 or its equivalent or better by a nationally recognized rating agency (NRSRO).
Prime commercial paper	Highest ranking or highest letter and number rating as provided by a NRSRO.
Negotiable certificates of deposit	A (long-term) or A-1 (short-term) or their equivalent or better by a NRSRO.
Bank deposits	All deposits must be collateralized as required by California Government Code Sections 53630 et seq. The Treasurer may waive collateral for the portion of any deposits that is insured pursuant to federal law.
Asset-backed securities	Rating category of at least 'AA' or equivalent or better by a NRSRO.
Supranationals	Rating category of at least 'AA' or equivalent or better by a NRSRO.
CAMP	Rating category of 'AAAm' or its equivalent or better by a NRSRO.
Repurchase agreements	Limited to primary dealers or financial institutions in a rating category of 'A' or its equivalent or better by a NRSRO.
Medium-term corporate notes	Rating category of 'A' or its equivalent or better by a NRSRO.
LAIF	Not applicable.
Money market funds	Highest ranking by not less than two NRSROs or must retain an investment advisor that meets specified requirements.
Municipal bonds	A (long-term) or A-1 (short-term) or their equivalent or better by a NRSRO.

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At March 31, 2021 and 2020, Metropolitan's portfolio was invested in the following securities by rating:

(Dollars in thousands)	Rating	March 31,	
		2021	2020
Negotiable certificates of deposit	F1 ⁽¹⁾	\$ 249,170	\$ 140,860
Prime commercial paper	A1/P1 ⁽¹⁾	230,071	136,615
CAMP	AAAm	214,879	166,102
Medium-term corporate notes	A1 ^{(1), (2)}	206,183	218,683
U.S. Treasury securities	N/A ⁽³⁾	131,182	133,555
LAIF	N/A ⁽⁴⁾	75,000	75,000
Supranationals	AA or higher	67,355	53,570
Asset-backed securities	AA or higher	41,134	42,012
GSE	N/A ⁽³⁾	35,858	61,580
Federal agency securities	N/A ⁽³⁾	34,731	103,249
Municipal bonds	A ⁽¹⁾	7,329	2,140
Money market funds	AAA	3,590	2,108
Total portfolio		\$ 1,296,482	\$ 1,135,474

⁽¹⁾ A (long-term) or A-1 (short-term) or better e.g. F1+, A1+, AA, or AAA.

⁽²⁾ In March 2020, Daimler Finance and Delta Airlines (Cusip 247367BH7) security was downgraded by S&P from A- to BB+. Management determined to hold these securities to maturity.

⁽³⁾ Credit ratings are not applicable to obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.

⁽⁴⁾ LAIF is not rated.

Concentration of credit risk. In accordance with Metropolitan's investment policy, the minimum requirements for limiting concentration of credit risk defined the maximum percent allowable for investment in each security type as well as the percent allowable for investment by issuer per type. Generally, the maximum allowable for investment by security type varied from 20 percent for money market funds, to 100 percent for U.S. Treasury and federal agency securities. The percentages of investments that can be purchased by a single issuer is limited to 5 percent for banker's acceptance, prime commercial paper, medium-term corporate notes, negotiable certificates of deposit, municipal bonds, and asset-backed securities.

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The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of March 31, 2021 and 2020.

	Investment Policy Limits	Percent of Portfolio	
		2021	2020
Negotiable certificates of deposit	30%	19.22 %	12.41 %
Prime commercial paper	25%	17.75 %	12.03 %
CAMP	30%	16.57 %	14.63 %
Medium-term corporate notes	30%	15.90 %	19.26 %
U.S. Treasury Securities	100%	10.12 %	11.76 %
LAIF	N/A	5.78 %	6.60 %
Supranationals	30%	5.19 %	4.72 %
Asset-backed securities	20%	3.17 %	3.70 %
GSE	100%	2.77 %	5.42 %
Federal agency securities	100%	2.68 %	9.09 %
Municipal bonds	30%	0.57 %	0.19 %
Money market funds	20%	0.28 %	0.19 %
Total portfolio		100.00 %	100.00 %

At March 31, 2021 and 2020, Metropolitan had the following investments (obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government not listed) representing five percent or more of its investments:

(Dollars in thousands)	2021	
CAMP	\$ 214,879	16.57 %
LAIF	\$ 75,000	5.78 %

(Dollars in thousands)	2020	
CAMP	\$ 166,102	14.63 %
LAIF	\$ 75,000	6.60 %

Custodial credit risk. At March 31, 2021 and 2020, Metropolitan's investments were insured, registered or held, in Metropolitan's name, in safekeeping at Metropolitan's bank, which was not a counterparty to the investment transactions. The exceptions were \$214.9 million and \$166.1 million in deposit in the CAMP and \$75.0 million in deposit in LAIF as of March 31, 2021 and 2020.

CAMP is a program created through a joint powers agency as a pooled short-term portfolio and cash management vehicle for California public agencies under California Government Code Section 53601(p). CAMP is governed by a seven member Board of Trustees comprised of finance directors and treasurers of California public agencies. The

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total amount invested by all public agencies in CAMP was \$5.7 billion and \$5.5 billion as of March 31, 2021 and 2020, respectively. Of the amount invested in CAMP, 41.7 percent and 40.8 percent was invested in medium-term and short-term notes and asset-backed securities at March 31, 2021 and 2020, respectively. The average maturity of CAMP investments was 51 days and 40 days as of such dates.

The LAIF, created by California statute, is part of a pooled money investment account (PMIA). The LAIF has oversight by the Local Investment Advisory Board, which consists of five members designated by statute. The Chairwoman is the State Treasurer, or her designated representative.

The total amount invested by all public agencies in LAIF as of March 31, 2021 and 2020 was \$34.5 billion and \$28.2 billion, respectively. At March 31, 2021 and 2020, the PMIA had a balance of \$126.7 billion and \$98.1 billion, respectively, of which, 2.72 percent and 3.42 percent, respectively, were invested in medium-term and short-term notes and asset-backed securities. The average maturity of LAIF investments as of March 31, 2021 and 2020 was 220 days and 208 days, respectively.

(c) Reverse Repurchase Agreements

Metropolitan is permitted, subject to conditions imposed by State law, to sell securities owned under written agreements and to buy back the securities on or before a specified date for a specified amount. No such reverse repurchase agreements were entered into during the twelve months ended March 31, 2021 and 2020.

(d) Restricted Cash and Investments

Metropolitan has established a number of separate accounts, also referred to as funds, to provide for specific activities in accordance with special regulations, bond covenants, and trust arrangements. The accounts are classified as "restricted." Most restricted accounts have the minimum cash and investment balance requirements and all are nondiscretionary in terms of the use of assets. Among other things, the restricted amounts provide for payments of debt service on Metropolitan's bonds; reserves for principal and interest on outstanding bonds; payments for arbitrage tax rebate; construction of capital assets; payment of Metropolitan's operations and maintenance expenses; and payment of the costs related to the closure and postclosure maintenance of Metropolitan's solid waste landfill facility.

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3. SHORT-TERM AND LONG-TERM DEBT

Metropolitan's enabling Act specifies that its indebtedness shall be limited to 15 percent of the assessed value of all taxable property within Metropolitan's service area. Existing outstanding debt of \$4.499 billion and \$4.432 billion at March 31, 2021 and 2020, respectively, represents less than one percent of the fiscal year 2022 and 2021 total taxable assessed valuation of \$3,263 billion and \$3,092 billion, respectively.

Metropolitan's long-term debt consists of general obligation and revenue bond issues as well as other obligations. The general obligation bonds are secured by Metropolitan's authority to levy ad valorem property taxes. The revenue bond obligations are special limited obligations of Metropolitan and are secured by a pledge of Metropolitan's net operating revenues. Such obligations contain certain restrictive covenants, with which Metropolitan has complied. Substantially all of the bond issues contain call provisions. Substantially all of the debt proceeds have been, and are expected to continue to be, utilized to fund new facilities, improvements and betterments, and to refund outstanding bonds.

(a) Commercial Paper and Revolving Notes

Metropolitan may issue up to \$200.0 million in commercial paper to fund a portion of its capital investment plan, as approved by Metropolitan's Board. There was no commercial paper issued through March 31, 2021 and 2020 and no commercial paper was outstanding at March 31, 2021 and 2020. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds and revolving notes (see Notes 3c and 3f).

On October 1, 2019, Metropolitan issued a \$100.0 million note under the RBC Short-Term Revolving Credit Facility, at a rate equal to the SIFMA Index plus 33 basis points. On February 11, 2020, the RBC Note was repaid with proceeds from the issuance of the Water Revenue Refunding Bonds, Series 2020 A.

On June 30, 2020, Metropolitan issued certain notes evidencing a draw of \$35.6 million from the RBC Short Term Credit Facility for the purpose of refunding a portion of Metropolitan's then outstanding subordinate lien bonds. On July 1, 2020, the draw was refunded with proceeds of the Water Revenue Refunding Bonds, 2020 Series C.

A total of \$46.8 million of revolving notes were outstanding at March 31, 2021 and 2020.

(b) General Obligation Bonds

In 1966, voters authorized Metropolitan to incur up to \$850.0 million of general obligation bond indebtedness to finance a portion of Metropolitan's capital investment plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled \$850.0 million. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of \$26.8 million and \$37.3 million in general obligation refunding bonds were outstanding at March 31, 2021 and 2020, respectively.

The general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates of 5.0 percent. The term bonds are subject to mandatory redemption prior to maturity. All general obligation bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on interest payment dates, and subject to early redemption.

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(c) Revenue Bonds

Pursuant to a 1974 voter authorization, additional funds, primarily for funding the capital investment plan, are obtained through the sale of water revenue bonds. Revenue bonds may be issued subject to certain conditions, including a requirement that the total of revenue bonds outstanding does not exceed the equity (net position) of Metropolitan as of the fiscal year end prior to such issuance. Metropolitan has refunded some of these revenue bonds through the issuance of refunding bonds. A total of \$3.947 billion and \$4.010 billion of revenue bonds and revenue refunding bonds were outstanding at March 31, 2021 and 2020, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through October 2049 at interest rates ranging from 3.00 percent to 5.75 percent. The term bonds are subject to mandatory redemption prior to maturity. Substantially all revenue bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on any interest payment dates, and subject to early redemption.

Revenue Bond issued during the twelve months ended March 31, 2021 was as follows:

- On February 4, 2021, Metropolitan issued \$188.9 million of Water Revenue Bonds, Series 2021 A, at a true interest cost of 2.78 percent.. Proceeds were used to fund a portion of Metropolitan's Capital Investment Plan and costs of issuance. The maturities extend to October 1, 2051 and are subject to mandatory and optional redemption provisions.

(d) Bond Refundings and Defeasances

Metropolitan has issued Waterworks General Obligation Refunding Bonds, Water Revenue Refunding Bonds, Special Variable Rate Water Revenue Refunding Bonds, and short-term notes to refund various issues of Waterworks General Obligation Bonds, Waterworks General Obligation Refunding Bonds, Water Revenue Bonds, Water Revenue Refunding Bonds, Special Variable Rate Water Revenue Refunding Bonds, and revolving notes previously issued. The net proceeds from these sales were used to redeem the refunded bonds and fund certain swap termination payments or to purchase U.S. Treasury securities that were deposited in irrevocable escrow trust accounts with a bank acting as an independent fiscal agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered defeased and the related liabilities have been excluded from Metropolitan's basic financial statements.

(e) Interest Rate Swaps

Metropolitan has eight outstanding interest rate swap agreements as of March 31, 2021. These agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates which are Metropolitan's hedging derivative instruments.

Pay-Fixed, Receive-Variable

Objective of the Swaps: In order to take advantage of low interest rates in the marketplace, Metropolitan entered into eight separate pay-fixed, receive-variable interest rate swaps at costs that were less than what Metropolitan otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

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Terms: The notional amounts of the swaps match the principal amounts of the associated debt in total. Metropolitan's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated long-term debt.

Fair Values: At March 31, 2021, all pay-fixed, receive-variable swaps had a negative fair value. Because the coupons on Metropolitan's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes. The fair values of the swaps were estimated using the zero-coupon method and exclude accrued interest. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risks: As of March 31, 2021, Metropolitan was not exposed to credit risk on the outstanding pay-fixed, receive-variable swaps that had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Metropolitan would be exposed to credit risk to each swap counterparty in the amount of the derivatives' fair value. Should the counterparties to the transactions fail to perform according to the terms of the swap contract, Metropolitan would face a maximum possible loss equal to the fair value of these swaps.

All swap agreements contain specific collateral requirements that are in effect for Metropolitan and the counterparties. The swaps require different collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are also reduced as the credit ratings are reduced. Collateral on all swaps is to be in the form of U.S. government securities that may be held by the party posting the collateral. Metropolitan had no posted collateral as of March 31, 2021.

Each swap contains cross-default provisions that allow the nondefaulting party to accelerate and terminate all outstanding transactions and to net the transactions' fair values into a single sum to be owed by, or owed to, the nondefaulting party.

As of March 31, 2021, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of \$197.2 million or 44.9 percent of the notional amount of Metropolitan's outstanding pay-fixed, receive-variable swap transactions. This counterparty is rated Aa2/A+/AA by Moody's, Standard & Poor's Global, and Fitch Ratings, respectively.

Basis Risk: The interest rates on Metropolitan's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties on pay-fixed, receive-variable interest rate swaps. To the extent these variable payments differ, Metropolitan is exposed to basis risk. When the rates received from the counterparties are less than the rates on variable rate bonds associated with the respective swap transactions there is a basis loss. When the rates received from the counterparties are greater than the rates on variable rate bonds associated with the respective swap transactions there is a basis gain. As of March 31, 2021, the interest rates of the variable rate debt associated with these swap transactions range from .04 percent to .43 percent.

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Metropolitan's variable rate payments received from the counterparties of these swaps ranged from .06 percent to .13 percent.

Termination Risk: Metropolitan may terminate any of the swaps if the other party fails to perform under the terms of the swap agreements. If any of the swaps are terminated, the associated variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, Metropolitan would be liable to the counterparty for a payment equal to the swap's fair value.

Tax Risk: As with other forms of variable rate exposure and the relationship between the taxable and tax-exempt markets, Metropolitan is exposed to tax risk should tax-exempt interest rates on variable rate debt issued in conjunction with the swaps rise faster than taxable interest rates received by the swap counterparties, due particularly to reduced federal or state income tax rates, over the term of the swap agreement.

(f) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from .04 percent to .46 percent as of March 31, 2021 and .60 percent to 1.31 percent as of March 31, 2020. Metropolitan can elect to change the interest rate period of the bonds with certain limitations.

Metropolitan has entered into standby bond purchase agreements (SBPA) with commercial banks to provide liquidity for six separate variable rate bond issues listed in the table below. Bondholders have the right to tender such variable rate bonds to the paying agent on any business day with same day notice. In the event that tendered bonds are not remarketed, the paying agent will draw on the SBPA to pay such bondholders. The draw on the SBPA creates a new debt obligation between Metropolitan and the Bank, called a Bank Bond.

The Bank Bonds that would be issued under the SBPA would initially bear interest at a per annum interest rate equal to, depending on the applicable SBPA, a Base Rate of either: (a) the highest of the (i) Prime Rate plus one percent, (ii) Federal Funds Rate plus two percent, and (iii) seven percent; or (b) the highest of the (i) Prime Rate, (ii) Federal Funds Rate plus one half of one percent, and (iii) seven and one half percent (with the Base Rate increasing in the case of each of (i), (ii) and (iii) of this clause (b) after 90 days, by one percent). To the extent such bank bonds have not been remarketed or otherwise retired as of the earlier of the 90th day following the draw on the SBPA or the stated expiration date of the related SBPA, Metropolitan's obligation to repay the principal of the Bank Bonds would be payable in semi-annual installments over a period of approximately three or five years, depending on the applicable SBPA. Metropolitan has secured its obligation to repay principal and interest under the SBPAs as a senior lien obligation.

In addition, such bonds are subject to mandatory tender for purchase under certain circumstances, including upon the expiration of the SBPA. Metropolitan intends to either renew the facility or exercise its right to remarket the debt as a long-term financing. The portion that would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements was \$26.5 million and \$45.3 million at March 31, 2021 and 2020, respectively.

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Metropolitan has four and six variable rate bonds that are supported by a SBPA as of March 31, 2021 and 2020, respectively:

(Dollars in thousands)

Bond Issue	Amount		Expiration Date	Interest Rate	Current Amount	
	3/31/2021	3/31/2020			3/31/2021	3/31/2020
Water Revenue Bonds						
2000 Series B-3	\$ 78,900	\$ 88,800	3/20/23	Reset Daily	\$ —	\$ —
2017 Series A	80,000	80,000	3/20/23	Reset Daily	—	—
Water Revenue Refunding Bonds						
2018 Series A-1, A-2	90,070	209,870	6/25/21	Reset Daily	90,070	180
2016 Series B-1, B-2	82,905	103,670	7/19/21	Reset Daily	82,905	—
Total	\$ 331,875	\$ 482,340			\$ 172,975	\$ 180

Metropolitan has four and eight variable rate bonds that are not supported by a SBPA as of March 31, 2021 and 2020, respectively:

(Dollars in thousands)

Bond Issue	3/31/21	3/31/20	Interest Rate
Water Revenue Refunding Bonds			
2013 Series D	\$ —	\$ 87,445	Reset Weekly
2014 Series D	—	38,465	Reset Weekly
2015 Series A-1, A-2	—	188,900	Reset Weekly
Subordinate Water Revenue Bonds			
2016 Series A	175,000	175,000	1M LIBOR plus % spread
2017 Series C	80,000	80,000	SIFMA Index plus % spread
Subordinate Water Revenue Refunding Bonds			
2017 Series D	95,630	95,630	SIFMA Index plus % spread
2017 Series E	95,625	95,625	SIFMA Index plus % spread
Total	\$ 446,255	\$ 761,065	

The Subordinate Water Revenue Bonds, 2016 Series A were issued by Metropolitan through a Continuing Covenant Agreement with BANA (2016 BANA Agreement). The Subordinate 2016 Series A bonds will bear interest at a variable rate at a spread of 32 basis points to one-month LIBOR. The Subordinate 2016 Series A bonds are subject to mandatory tender for purchase on the scheduled mandatory tender date of June 21, 2021, or if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction. A failure by Metropolitan to pay the purchase price of such bonds on the mandatory tender date would constitute an event of default under Metropolitan's Subordinate Debt Resolutions if not remedied

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within five business days. Metropolitan intends to either extend the 2016 BANA Agreement or remarket the bonds in the public debt market prior to the scheduled mandatory tender date. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a Subordinate Lien Parity Obligation.

The current terms of the Subordinate Water Revenue Refunding Bonds, 2017 Series D and Series E (SIFMA Index Mode), and the Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode), require bondholders to tender their bonds for purchase on the scheduled mandatory tender date of June 21, 2021. A failure by Metropolitan to pay the purchase price from the proceeds of remarketing or other funds, for a period of five business days following written notice by any owner of such bonds, will constitute an event of default under Metropolitan's Subordinate Debt Resolutions. Upon the occurrence and continuance of such events of default, the owners of 25 percent in aggregate principal amount of the Subordinate Revenue Bonds then outstanding may elect a bondholders' committee to exercise rights and powers of such owners under the Subordinate Debt Resolutions, including the right to declare the entire unpaid principal of the Subordinate Revenue Bonds then outstanding to be immediately due and payable.

As of March 31, 2021 and 2020, the variable rate self-liquidity bonds not supported by a SBPA but are covered by the RCA are as follows:

(Dollars in thousands)

Bond Issue	Amount		Expiration Date	Interest Rate	Borrowing		
	3/31/21	3/31/20			Amount 3/31/20	Current Amount 3/31/21	3/31/20
Water Revenue Refunding Bonds							
2013 Series D	\$ —	\$ 87,445	6/23/23	Reset Weekly	\$ 87,445	\$ —	\$ —
2014 Series D	—	38,465	6/23/23	Reset Weekly	38,465	—	—
2015 Series A-1, A-2	—	188,900	6/23/23	Reset Weekly	74,090	—	114,810
Total	\$ —	\$ 314,810			\$ 200,000	\$ —	\$ 114,810

As of March 31, 2020, the four series of the variable rate self-liquidity bonds that were not supported by a SBPA had no long-term take out provisions therefore, the entire principal amount of \$314.8 million, could be tendered for purchase upon one week's notice from bondholders. However, on June 25, 2018, Metropolitan entered into a RCA, under which Metropolitan could borrow up to \$200.0 million, to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. Borrowings made by Metropolitan under the RCA initially bear interest at a fluctuating per annum interest rate equal to, at Metropolitan's discretion, either: (a) one month LIBOR plus one and a half percent; or (b) the higher of (i) the Federal Funds Rate plus one half of one percent, and (ii) the Prime Rate (increasing in any case periodically, beginning after 90 days). The RCA permitted repayment of any borrowed principal funds over ten semi-annual installments beginning 180 days after the funds are borrowed. The RCA had a stated expiration date of June 23, 2023. As a result of the RCA, \$114.8 million was reported as current liabilities as of March 31, 2020. On April 3, 2020, the four series of variable rate self-liquidity bonds were refunded and on April 17, 2020, Metropolitan terminated the RCA.

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4. PENSION PLAN

(a) General Information about the Pension Plan

Plan Description

All full-time Metropolitan employees are required to participate in Metropolitan's Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual report. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Employees hired prior to January 1, 2013 (Classic members) with five years of total service are eligible to retire at age 50 with statutorily reduced benefits; employees hired after January 1, 2013 (PEPRA members) with at least five years of credited service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for improved non-industrial disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit.

5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) Plan Description and Benefits Provided

Through CalPERS, Metropolitan offers medical insurance to active and retired employees, as well as their qualified dependents under the Public Employees' Medical and Hospital Care Act (PEMHCA). Under PEMHCA, health coverage for the employee continues into retirement. Current plans offered are PERS Care PPO, PERS Choice PPO, PERS Select PPO, Blue Shield HMO, and Kaiser HMO. Metropolitan participates in the CERBT Fund, which is an agent multiple-employer plan available to employers to pre-fund OPEB benefits. Benefit provisions are established through negotiations between Metropolitan and its various bargaining units, which also apply to retirees. For employees hired on or after January 1, 2012, retirees must have a minimum of 10 years of PERS service and no less than five years of Metropolitan service in order to receive post-employment health benefits in accordance with PERS as per Government Code Section 22893. For employees hired prior to January 1, 2012, retirees are not required to meet the eligibility criteria. CalPERS issues a separate comprehensive annual report that includes financial statements for its CERBT Fund. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

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6. COMMITMENTS AND CONTINGENCIES**(a) State Water Contract (see Note 7)**

Estimates of Metropolitan's share of the projected fixed costs of the SWP are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates, and inflation. During the next five years, payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows:

(Dollars in thousands)	State Water Contract Payments
Year ending June 30:	
2022	\$ 469,187
2023	480,909
2024	496,922
2025	495,033
2026	504,279

Metropolitan intends to exercise its option to extend its agreement with the State through 2085, which will result in annual minimum operations and maintenance costs through 2085. In addition, the amounts shown above do not contain any escalation for inflation, are subject to significant variation over time because the amounts are based on a number of assumptions, and are contingent on future events. None of the estimated long-term commitments are recorded as liabilities in the accompanying basic financial statements.

(b) Bay/Delta Regulatory and Planning Activities

The State Water Resources Control Board (State Board) is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of the State Board can affect the availability of water to Metropolitan and other water users throughout California. The State Board exercises its regulatory authority over Bay/Delta watershed supplies by means of public proceedings leading to regulations and decisions.

The Delta Stewardship Council (Council) is the California State agency tasked with creating and implementing a comprehensive management plan for the Delta. The Council, created by the 2009 Sacramento-San Joaquin Delta Reform Act, serves as an independent voice for science and policy in the Delta to achieve the state mandated coequal goals for the Delta of ecosystem restoration and water supply reliability. To accomplish its mission, the Council adopted and implements the Delta Plan, which is the state's long-term management plan for the Delta to further the coequal goals, including facilitating, coordinating, and integrating the activities of hundreds of local, state, and federal agencies that have responsibilities directly related to water, ecosystems, land use, recreation, flood control and other functions in the legally defined Delta. The Council is conducting updates to its Delta Plan, including a strategic levee investment policy, updates to the Ecosystem chapter and associated policies and recommendations, and a draft climate change vulnerability study for the Delta and Suisun Marsh as part of their Delta Adapts: Creating a Climate Resilient Future initiative. The Delta Adapts plan is intended to help inform and assess specific climate risks and vulnerabilities in the Delta and, in coordination with stakeholders, develop adaptation strategies to address those vulnerabilities.

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To avoid endangering State or federally listed species or adversely modifying their critical habitat, the Department of Water Resources (DWR) consults with the California Department of Fish and Wildlife (CDFW) and its federal agency counterparts under the California Endangered Species Act (ESA) and federal ESA regarding the operation of the SWP. If a project may adversely affect a listed species, a formal consultation is held with the state and federal regulatory agencies. The regulatory agency(ies) then issue operating permits under the ESA jurisdiction, a federal biological opinion and a State Incidental Take Permit (ITP). Updated federal biological opinions were approved in February 2020 and CDFW issued a State ITP in March 2020. Both the federal and state permits have been challenged in court by multiple parties including water agencies and non-governmental organization groups. Metropolitan is involved in the federal permit litigation as part of the State Water Contractors, and in the State ITP litigation as Metropolitan, in order to protect its interests that the permits be based on the best available science. The litigation is still in the pre-merits phase, and the deadline to prepare the administrative records has been extended in the eight cases challenging the ITP.

The Bay Delta Conservation Plan (BDCP) planning process, which began in 2007, was a voluntary collaboration of state, federal, and local water agencies, state and federal fish agencies, environmental organizations, and other interested parties to provide a comprehensive habitat conservation and restoration program for the Delta, including new Delta conveyance infrastructure as one of the conservation measures consisting of multiple new intakes on the Sacramento River connected to existing SWP and Central Valley Project water facilities in the south Delta by two main tunnels. In addition, the BDCP would have provided the basis for long-term permits under federal and state endangered species laws for activities covered by the plan based on the best available science, identified sources of funding, and an adaptive management and monitoring program, and it would have been incorporated into the Delta Plan if it met the requirements of the federal and state ESAs for a Habitat Conservation Plan/Natural Communities Conservation Plan (HCP/NCCP).

On April 30, 2015, the State announced its intent to study three new conveyance-only alternatives that would not be part of an HCP/NCCP, separating the conveyance facilities and habitat restoration measures into two separate efforts namely: California WaterFix (CWF) and California EcoRestore. Under the CWF, the new water conveyance facilities with proposed design changes would be constructed and operated, with federal ESA compliance achieved through section 7 consultation. State and Federal ESA permits were issued in June and July 2017, and the DWR approved CWF on July 21, 2017. Metropolitan and other State Water Contractors approved their respective participation in CWF in 2017 and 2018. On February 12, 2019, Governor Newsom announced that he did not support a two-tunnel Delta Conveyance project, but supports a single tunnel project. On April 29, Governor Newsom issued Executive Order N-10-19, directing several agencies to, among other things, "inventory and assess . . . current planning to modernize conveyance through the Bay Delta with a new single tunnel project." On May 2, 2019, the DWR rescinded its approval of CWF and decertified the Environmental Impact Report (EIR). On January 15, 2020, the DWR issued a Notice of Preparation of an EIR for a single-tunnel project now referred to as the Delta Conveyance Project.

Eighteen State Water Project contractors have taken action in November and December 2020 and approved their participation in the planning and pre-construction costs for the Delta Conveyance Project and authorized the execution of a funding agreement with the DWR for such purpose. At its December 8, 2020, Board meeting,

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Metropolitan's Board authorized the General Manager to execute a funding agreement and committed funding for a Metropolitan participation level of 47.2 percent of the costs of preliminary design, environmental planning and other pre-construction activities to assist in the environmental process for the proposed Delta Conveyance Project. At a 47.2 percent participation level for Metropolitan, its forecasted funding agreement costs will be \$160.8 million for calendar years 2021 through 2024. The DWR is continuing to develop an EIR under the California Environmental Quality Act. A range of reasonable alternatives to consider and analyze in the EIR has been identified and current efforts are focused on analyzing the alternatives' potential impacts on environmental resources. DWR also conducted interviews with stakeholders in February and early March on the concept of incorporating a Community Benefits Program as part of the Delta Conveyance Project to help protect and enhance the cultural, recreational, natural resource and agricultural values of the Delta. DWR is also conducting a tribal consultation process as part of its environmental planning, consistent with State statutes and policies.

(c) Imperial Irrigation District

As of March 31, 2021, Metropolitan had advanced a total of \$358.8 million to the Imperial Irrigation District (IID) for construction costs, operations and maintenance costs, and indirect costs of the conservation projects. Metropolitan remains obligated to pay IID for actual operation and maintenance costs for the remainder of this agreement through at least 2041. In return, Metropolitan will receive between 85.0 TAF to 105.0 TAF in 2021 and annually thereafter depending upon the amount used by the Coachella Valley Water District (CVWD). A total of at least 85.0 TAF to 105.0 TAF was available in calendar years 2021 and 2020, respectively, for diversion by Metropolitan.

(d) Sale of Water by the Imperial Irrigation District to San Diego County Water Authority

In April 1998, the San Diego County Water Authority (SDCWA) and IID executed an agreement (Transfer Agreement) for SDCWA's purchase from IID of Colorado River water that is conserved within IID. SDCWA is a Metropolitan member agency and one of the largest water purchasers from Metropolitan. In October 2003 the Transfer Agreement was revised as part of the Quantification Settlement Agreement (see Note 6e). The amended Transfer Agreement sets the maximum transfer amount at 205.0 TAF in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200.0 TAF per year beginning in 2023.

No facilities exist to provide for delivery of water from IID to SDCWA. In 1998, Metropolitan and SDCWA entered into an agreement for the exchange of the IID water to be acquired by SDCWA under the Transfer Agreement, with water to be delivered by Metropolitan. In 2003, the boards of directors of Metropolitan and SDCWA agreed to an increase in the price that SDCWA would pay to Metropolitan for this exchange of water, in return for Metropolitan's assignment to SDCWA of Metropolitan's rights to water conserved as a result of the lining of the All-American and Coachella Canals and \$235.0 million, as set forth in an amended exchange agreement (Exchange Agreement) and an Allocation Agreement. Under the Exchange Agreement, SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and the conserved canal lining water allocated to SDCWA. In exchange, Metropolitan delivers an equal volume of water from its own sources of supply through its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. SDCWA pays Metropolitan a volumetric price for each delivery by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan's Board from time

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to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities (see Note 1c). SDCWA has challenged the validity of Metropolitan's charges for conveyance of water that became effective January 1, 2011 and January 1, 2012, in San Diego County Water Authority v. Metropolitan Water District of Southern California; et al. On June 8, 2012, SDCWA filed a separate lawsuit challenging the rates adopted by Metropolitan's Board on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. On May 30, 2014, SDCWA filed a separate lawsuit challenging the rates adopted by Metropolitan's Board on April 8, 2014 and effective on January 1, 2015 and January 1, 2016. On April 13, 2016, SDCWA filed a separate lawsuit challenging the rates and charges adopted by Metropolitan's Board on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. On June 8, 2018, SDCWA filed a separate lawsuit challenging the rates and charges adopted by Metropolitan's Board on April 10, 2018 and effective on January 1, 2019 and January 1, 2020. The Exchange Agreement requires Metropolitan to pay the disputed portion of the amount paid by SDCWA under the Exchange Agreement and interest thereon to SDCWA, if SDCWA prevails in a dispute over the price payable by SDCWA under the Exchange Agreement. See Claims and Litigation, Note 6g.

(e) Quantification Settlement Agreement

The Quantification Settlement Agreement (QSA) is part of the California Plan, which is a plan to reduce California's use of Colorado River water to its basic apportionment of 4.4 million acre-feet per year when necessary through water conservation, transfers from higher priority agricultural users to Metropolitan's service area, and storage programs. The QSA was executed in October 2003 and establishes Colorado River water use limits for IID and the CVWD. It also provides for specific acquisitions of conserved water and water supply arrangements and restores the opportunity for Metropolitan to receive any special surplus water.

(f) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2021 through 2025 totals approximately \$1.4 billion. However, due to various uncertainties such as lower than anticipated construction bids, permitting delays, and facility shutdown constraints, capital spending is forecasted at \$200.0 million for fiscal year 2021, \$225.0 million for fiscal year 2022 and \$300.0 million per year for fiscal year 2023 through 2025.

Over the next three years, Capital Investment Plan budget totals approximately \$800.0 million with over \$157.1 million targeted for mechanical and electrical refurbishment and replacement (R&R) projects for the Colorado River Aqueduct; \$120.5 million for R&R work at Metropolitan's water treatment plants; \$122.9 million on a variety of information technology projects such as the Supervisory Control and Data Acquisition system, plus several security and support building improvements including the ongoing structural upgrades to the Los Angeles headquarters building; \$106.4 million on R&R work at pressure control facilities and pipelines throughout the distribution system; and \$108.7 million to continue relining of the Prestressed Concrete Cylinder Pipe portions of the Allen McColloch and Rialto Pipelines, and Calabasas, Second Lower, and Sepulveda feeders.

(g) Claims and Litigation

SDCWA filed San Diego County Water Authority v. Metropolitan Water District of Southern California, et al. on June 11, 2010. The complaint alleged that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012, misallocate certain State Water Contract costs to the System Access Rate and the System Power Rate, and thus affect charges for transportation of water, resulting in an overcharge to SDCWA

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by at least \$24.5 million per year. The complaint alleged that all SWP costs should be allocated instead to Metropolitan's Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It stated additionally that Metropolitan will overcharge SDCWA by another \$5.4 million per year by including the Water Stewardship Rate in transportation charges.

The complaint requested a court order invalidating the rates adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with the State Water Contract and the Water Stewardship Rate to water supply rates and not to transportation rates. Rates in effect in prior years were not challenged in this lawsuit. SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims were for breach of the water Exchange Agreement between Metropolitan and SDCWA (see Note 6d) due to a price based on allegedly illegal rates; improper exclusion of SDCWA's payments under such Exchange Agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies; and illegality of the rate structure integrity provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. The rate structure integrity provision permitted the Board to terminate incentives payable under conservation and local resources incentive agreements between Metropolitan and a member agency due to certain actions by the member agency to challenge the rates that are the source of incentive payments. In June 2011, Metropolitan's Board authorized termination of two incentive agreements with SDCWA under the rate structure integrity provision in such agreements after SDCWA filed its initial complaint challenging Metropolitan's rates. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contained additional allegations but no new causes of action.

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. The complaint contained allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting that Metropolitan's rates, adopted in April 2012, violate Proposition 26. SDCWA filed a Third Amended Petition for Writ of Mandate and Complaint on January 23, 2013, to add new allegations that Metropolitan's rates adopted in April 2010 did not meet the requirements of Proposition 26. The court granted Metropolitan's motion to strike allegations relating to Proposition 26 on March 29, 2013, expressly ruling that SDCWA may not allege a violation of Proposition 26 in its challenge to the rates adopted in April 2010. This ruling did not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations.

Following trial of both lawsuits in two phases, concluding on January 23, 2014 and April 30, 2015, respectively, the Superior Court of the State of California, County of San Francisco (the "Superior Court"), issued its Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan appealed the trial court's decision in each case, and SDCWA filed a cross-appeal of the court's ruling on the rate structure integrity claim and an attorneys' fees order.

On June 21, 2017, the California Court of Appeal issued its decision in the appeals and cross-appeal filed by Metropolitan and SDCWA, respectively. The Court of Appeal ruled that Metropolitan may lawfully include its SWP transportation costs in the System Access Rate and System Power Rate that are part of the Exchange Agreement's price term, and that Metropolitan may also lawfully include the System Access Rate in its wheeling rate, reversing the

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trial court decision on this issue. The court held Metropolitan's allocation of the SWP transportation costs as its own transportation costs is proper and does not violate the wheeling statutes (Water Code, § 1810, et seq.), Proposition 26 (Cal. Const., Article XIIIIC, §1, subd.(e)), whether or not that Proposition applies to Metropolitan's rates, California Government Code section 54999.7, the common law, or the terms of the parties' Exchange Agreement.

The Court of Appeal also ruled that the administrative record before it for the rates in calendar years 2011 through 2014 did not support Metropolitan's inclusion of its Water Stewardship Rate as a transportation cost in the Exchange Agreement price or the wheeling rate, under the common law and wheeling statutes. Having made that determination, the Court of Appeal stated it need not evaluate the issue under any other law. The court did not address the allocation of the Water Stewardship Rate in subsequent years based on a different record. The court noted, and in a subsequent modification confirmed, that its holding does not preclude Metropolitan from including the Water Stewardship Rate in Metropolitan's full service rate.

The Court of Appeal held that because the Water Stewardship Rate was included in the Exchange Agreement price, there was a breach by Metropolitan of the Exchange Agreement in 2011 through 2014. The court remanded the case to the trial court for a redetermination of damages in light of its ruling concerning the Water Stewardship Rate. The Court of Appeal agreed with the trial court that statutory prejudgment interest applies with respect to any damages award, not a lesser contractual interest. The Court of Appeal reversed the trial court by finding that the Exchange Agreement may entitle the prevailing party to attorneys' fees for the second phase of the case concerning breach of contract; but directed the trial court on remand to make a new determination of the prevailing party, if any. The cases were therefore remanded to the trial court for a review of both damages and attorneys' fees, if any.

With respect to other issues considered on appeal, the Court of Appeal upheld the trial court's ruling that Metropolitan improperly excludes SDCWA's payments under the Exchange Agreement in Metropolitan's calculation of SDCWA's preferential rights. The court also ruled that SDCWA had the constitutional right to challenge the rate structure integrity provision in Metropolitan's conservation and local resources incentive agreements and found that the rate structure integrity provision was invalid and unenforceable as an unconstitutional condition on the provision of a public benefit.

On September 27, 2017, the California Supreme Court denied SDCWA's petition for review, declining to consider the Court of Appeal's decision. The Court of Appeal's decision is therefore final.

On July 25, 2018, the Superior Court issued an order regarding the scope of the matters to be reconsidered by the Superior Court on remand pursuant to the Court of Appeal decision. With respect to the Superior Court's redetermination of damages in light of the Court of Appeal's ruling that the administrative record for calendar years 2011 through 2014 did not support Metropolitan's inclusion of its demand management costs in the Exchange Agreement price, the Superior Court ruled that it will award SDCWA \$28,678,190.90 in contract damages for breach of the Exchange Agreement, plus prejudgment interest at 10 percent per annum. The Superior Court determined that Metropolitan was not entitled in the remand proceedings to show what it could have lawfully charged SDCWA for demand management costs and to deduct that from SDCWA's damages.

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The Superior Court further ruled that SDCWA was not entitled in the remand proceedings to litigate the issue of “offsetting benefits” (described below) under the wheeling statutes for the parties’ Exchange Agreement. The Superior Court found that such claim was both outside the scope of remand and waived.

The Superior Court also ruled that SDCWA was entitled to judgment on its declaratory relief cause of action declaring the rate structure integrity provision in Metropolitan’s conservation and local resources incentive agreements invalid and unenforceable, and that SDCWA was entitled to further proceedings to litigate the issue of an entitlement to monetary restitution for 2011 through 2014 and the issue of what prospective relief SDCWA may be entitled to in connection with this cause of action.

Finally, the Superior Court confirmed, as the parties agreed, that it would conduct further proceedings for a redetermination of the prevailing party and attorneys’ fees in this matter.

On September 14, 2018, Metropolitan filed a Petition for Writ of Mandate with the California Court of Appeal, requesting the court to require the Superior Court to recalculate contract damages for breach of the Exchange Agreement from years 2011 through 2014, to include a set-off for the additional sums SDCWA would have paid had Metropolitan collected the Water Stewardship Rate through its full service sales as SDCWA argued was correct. On November 1, 2018, the Court of Appeal determined that it would not review the issue at this stage of the cases.

On February 14, 2019, Metropolitan tendered to SDCWA payment of \$44.4 million for the San Francisco Superior Court’s contract damages award for Water Stewardship Rate payments from 2011 through 2014, plus statutory interest through February 15, 2019, with a reservation of appeal rights, in the 2010 and 2012 SDCWA v. Metropolitan actions. This tender was made under compulsion to cease accrual of statutory interest in excess of market rates, but did not affect Metropolitan’s rights to appeal. On March 7, 2019, SDCWA rejected the tendered payment and returned the uncashed check for the tendered payment. In the 2010-2012 Judgment (discussed below), the Superior Court confirmed that Metropolitan’s tender was effective and stopped the accrual of interest in February 2019.

On August 29, 2019, as a result of changes in reorganization of assignments at the San Francisco Superior Court, the 2010 and 2012 cases, as well as the 2016, and 2017 SDCWA v. Metropolitan described below cases were reassigned to a different department of the court. SDCWA filed a motion for peremptory disqualification of the new judge and on September 6, 2019, the motion was sustained. On September 27, 2019, the 2010, 2012, 2016, and 2017 cases were assigned to Department 304, a different complex department in which the 2014 case is already pending. All cases are now pending before the Honorable Anne-Christine Massullo.

On November 15, 2019, Metropolitan provided a statutory Offer to Compromise to SDCWA to resolve all pending litigation filed by SDCWA. The offer, which was not confidential, was made under California Code of Civil Procedure Section 998, and was deemed withdrawn if not accepted by December 30, 2019. By letter dated December 19, 2019, SDCWA notified Metropolitan that it had determined not to act upon Metropolitan’s Section 998 Offer to Compromise. Metropolitan’s statutory Offer to Compromise was deemed withdrawn. SDCWA made its own settlement offer, which is public but non-statutory. SDCWA’s settlement offer was made subject to acceptance

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by Metropolitan no later than the close of business on January 31, 2020. The Metropolitan Board reviewed SDCWA's proposal at its January 14, 2020 Board meeting and took no action.

The Superior Court had scheduled an evidentiary hearing for June 16 to June 18, 2020 on SDCWA's requested relief based on its rate structure integrity provision claim. Following action of the SDCWA Board of Directors on February 27, 2020 (discussed below), SDCWA informed Metropolitan and the court that it was no longer seeking this relief. Accordingly, the evidentiary hearing was canceled.

On August 13, 2020, the Superior Court entered a final judgment in the 2010 and 2012 SDCWA v. Metropolitan cases (the "2010-2012 Judgment"). On August 14, 2020, SDCWA served notice of entry of judgment and notice of the court's peremptory writ of mandate in the cases.

In the 2010-2012 Judgment, the court entered judgment: (1) on the first three causes of action – for writ of mandate, declaratory relief, and invalidation (the rate challenges) – in SDCWA's favor, because the Court of Appeal found Metropolitan's inclusion of the Water Stewardship Rate as a component of the transportation rates charged under the Exchange Agreement and wheeling rate was unlawful, and ordered issuance of a writ of mandate as described below; (2) on the fourth cause of action – breach of contract – in favor of SDCWA but only with respect to its challenge to Metropolitan's inclusion of the Water Stewardship Rate in the Exchange Agreement price for deliveries in 2011-2014, the court awarded San Diego a total of \$44,373,872.29, comprised of: (A) \$28,678,190.90 in damages; (B) prejudgment interest at the rate of 10 percent per annum through November 18, 2015 in the amount of \$7,484,315.54; and (C) post-judgment interest at the rate of 7 percent per annum from November 19, 2015 until February 15, 2019 (the date of Metropolitan's tender of \$44,373,872.29 to SDCWA), in the amount of \$8,211,365.85; (3) on the fifth cause of action – declaratory relief regarding the rate structure integrity (RSI) provision – in favor of SDCWA as the RSI provision is invalid and unenforceable; (4) on the sixth cause of action – declaratory relief regarding preferential rights calculation – in favor of SDCWA that Metropolitan's previous methodology for calculating preferential rights violates § 135 of the Metropolitan Water District Act; (5) on the previously-dismissed cause of action for breach of fiduciary duty – in favor of Metropolitan; and (6) on the previously dismissed cause of action for breach of the covenant of good faith and fair dealing – in favor of Metropolitan.

The peremptory writ of mandate commands Metropolitan to "enact only legal wheeling and transportation rates in the future and, specifically, not to do the things that [the Court of Appeal] held were unlawful," and incorporates by reference the Court of Appeal decision; and to "exclude the costs of conservation programs and other demand management programs, enacted in [the 2010 and 2012] cases as the Water Stewardship Rate, from Metropolitan's wheeling rate published in Section 4405 of Metropolitan's Administrative Code and from the transportation rates charged under the [Exchange Agreement]."

Metropolitan filed a notice of appeal of the 2010-2012 Judgment and the writ on September 11, 2020. Metropolitan filed its opening brief on February 4, 2021. SDCWA filed its responding brief on appeal on May 7, 2021.

The court requested the parties' briefing as to whether it has jurisdiction to determine the prevailing party, if any, in the 2010 and 2012 cases, after the appeal was filed. The parties filed a joint submission that the court has jurisdiction

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and the court agreed. On December 16, 2020, the court heard the parties cross-motions on the determination of a prevailing party, if any, under the Exchange Agreement's attorneys' fees and costs provision. On January 12, 2021, the court heard the parties' motions to strike or tax each's memorandum of statutory costs, which involves a determination of prevailing party, as to all claims. For both sets of motions, Metropolitan contended that it is the prevailing party entitled to attorneys' fees and costs, or else there is not a prevailing party in these mixed-result cases.

On January 13, 2021, the court issued an order finding SDCWA is the prevailing party on the contract in the 2010 and 2012 cases, entitled to its attorneys' fees and costs under the contract. On February 10, 2021, the court issued an order awarding SDCWA statutory costs, on the basis it is the prevailing party. On February 25, 2021, Metropolitan filed a notice of appeal of the January 13 and February 10 orders regarding prevailing party and costs.

On February 11, 2021, Metropolitan received a demand for payment of the final judgment in the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan tendered payment to SDCWA on February 16, 2021 in the amount of \$44,373,872.29, which included the award for damages, prejudgment interest through November 19, 2015, and post-judgment interest through February 15, 2019. The payment included \$31.6 million of amounts withdrawn from the Exchange Agreement Set-Aside Fund (the Water Stewardship Rate payments under the Exchange Agreement from 2011 through 2014, and a portion of the statutory interest), and \$12.8 million withdrawn from reserves (the remainder of the statutory interest).

On March 31, 2021, the parties stipulated to the amount of SDCWA's attorneys' fees that may be awarded under the Exchange Agreement, without waiver of Metropolitan's pending appeals. Refer to Note 13, Subsequent events, for additional information.

In May 2014, SDCWA filed a new lawsuit asserting essentially the same rate claims and breach of contract claim in connection with the Board's April 2014 rate adoption. Metropolitan filed its answer on June 30, 2014. On February 9, 2015, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed.

On April 13, 2016, SDCWA filed a new lawsuit that alleged all rates and charges for 2017 and 2018 adopted by Metropolitan's Board on April 12, 2016 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserted misallocation of costs as alleged in the previous cases listed above and additional claims of over-collection and misallocation of costs and procedural violations. Following a stipulated order issued by the court on November 10, 2016, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases' appeals. The amended petition/complaint added allegations of the same Exchange Agreement breach as in the previous cases listed above and breach of a provision that requires Metropolitan to set aside disputed amounts, relating to the manner in which Metropolitan has set aside the amounts; requested a judicial declaration that, if a judgment is owed to SDCWA under the Exchange Agreement, SDCWA will not be required to pay any portion of that judgment; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees.

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On February 27, 2020, the SDCWA Board of Directors authorized its attorneys to dismiss, without prejudice, claims related to payments of the Water Stewardship Rate on supply purchases only and the unquantified claims in the stayed cases relating to cost-of-service grounds and the rate model.

On August 27, 2020, the court granted SDCWA's motion to lift the stays in the 2014 and 2016 SDCWA v. Metropolitan cases and to file a further amended petition/complaint. On August 28, 2020, SDCWA filed the amended petitions/complaints in the 2014 and 2016 cases. The amended petitions/complaints added, removed, and retained certain claims. Retained claims include SDCWA's challenge to Metropolitan's Water Stewardship Rate for calendar years 2015 through 2018 based on its allocation to transportation, with a request for the court to invalidate the transportation rates and the wheeling rate and award damages for breach of the parties' Exchange Agreement as a result. Added claims include a challenge to the wheeling rate and alleged breach of the Exchange Agreement for failure to provide offsetting benefits (only the 2018 case, discussed below, had included an offsetting benefits claim). In its offsetting benefits claim under the Exchange Agreement, SDCWA seeks to reduce the contract price.

On September 28, 2020, Metropolitan filed demurrers to, or in the alternative motions to strike, portions of the amended petitions/complaints in the 2014 and 2016 cases which the court hear on February 10, 2021. The motions sought to remove offsetting benefits claims in both cases as to alleged breach of contract and Metropolitan's wheeling rate, and the declaratory relief claim in the 2016 case as to how Metropolitan may satisfy a judgment. On February 16, 2021, the court denied the demurrers and motions to strike, allowing SDCWA to retain the contested allegations in its petitions/complaints.

On March 22, 2021, Metropolitan filed answers to the amended petitions/complaints in the 2014 and 2016 cases, along with cross-complaints asserting causes of action for declaratory relief with respect to, among other things, that the inclusion of the Water Stewardship Rate in transportation rates is lawful, that the transportation rates as charged under the Exchange Agreement are lawful as to offsetting benefits, and the inapplicability of Proposition 26 to Metropolitan's rates; judicial estoppel with respect to SDCWA's past statements regarding the Exchange Agreement; and for reformation of the Exchange Agreement price in the event the court were to find that the Exchange Agreement is subject to, based on, or incorporates the "offsetting benefits" provisions of the wheeling statutes. Refer to Note 13, Subsequent events, for additional information.

On June 9, 2017, SDCWA filed a new Petition for Writ of Mandate and Complaint challenging the Readiness-to-Serve Charge and Capacity Charge for 2018 adopted by Metropolitan's Board on April 11, 2017. These two charges are set annually, and SDCWA's 2016 lawsuit included a challenge to these two charges for 2017. The new lawsuit similarly alleged the 2018 Readiness-to-Serve Charge and Capacity Charge violated the California Constitution, statutes, and common law. The petition/complaint asserts misallocation of costs. Metropolitan was served with the petition/complaint on June 20, 2017. On July 18, 2017, SDCWA filed a first amended petition/complaint to add Metropolitan's Board action of July 11, 2017 to make minor corrections to the Readiness-to-Serve Charge. On July 31, 2018, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed. On July 23, 2020, the court entered SDCWA's requested dismissal of the 2017 case. The dismissal is without prejudice, which means SDCWA would not be precluded from re-initiating the case in the future.

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On June 8, 2018, SDCWA filed a new lawsuit that alleges all rates and charges for 2019 and 2020 adopted by Metropolitan's Board on April 10, 2018 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts the Water Stewardship Rate is unlawful per se and its collection in transportation charges is also unlawful; failure to provide wheelers a reasonable credit for "offsetting benefits" pursuant to Water Code Section 1810, et seq., which SDCWA contends (and Metropolitan disputes) applies to the parties' Exchange Agreement; over-collection and misallocation of costs, including misallocation of Metropolitan's California WaterFix costs as its transportation costs; and specified procedural violations. SDCWA states in the Petition and Complaint that it intends to amend its complaint to allege additional claims against Metropolitan, including but not limited to a claim for breach of contract. Following a stipulated order issued by the San Francisco Superior Court on January 10, 2019, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases. The amended petition/complaint adds a cause of action for breach of the Exchange Agreement alleging Metropolitan charged an unlawful price that includes the Water Stewardship Rate (despite suspension of this charge), failing to provide credit for offsetting benefits, charging transportation rates that are not based on costs of service, including California WaterFix costs, and not following procedural requirements; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees.

On July 28, 2020, the parties filed a stipulation and application to designate the case complex and related to the 2010-2017 cases. On November 13, 2020, the court ordered the case complex and assigned to Judge Massullo's court. Refer to Note 13, Subsequent events, for additional information.

Due to SDCWA's litigation challenging Metropolitan's rates, and pursuant to the Exchange Agreement between Metropolitan and SDCWA, as of March 31, 2021, Metropolitan held \$26.45 million in the Exchange Agreement Set-Aside Fund. This amount includes the disputed Water Stewardship Rate payments for calendar years 2015 through 2017, and interest earned by Metropolitan thereon. The amount held does not include statutory interest, attorneys' fees, costs, or any other amount the court may award.

Metropolitan is unable to assess at this time the likelihood of success of the pending cases, any possible appeals, or any future claims.

(h) Drinking Water Quality Standards

Under the Safe Drinking Water Act Amendments of 1996, Congress required the United States Environmental Protection Agency to set new drinking water quality standards. New standards to control microbial pathogens and disinfection byproducts (DBPs) became effective in 2002. These rules are known as the Interim Enhanced Surface Water Treatment Rule and the Stage 1 Disinfectants/Disinfection By-Product Rule. These standards became more stringent in a second set of regulations effective 2006. The second set of regulations (the Stage 2 Disinfectants/Disinfection Byproducts Rule and the Long-Term 2 Enhanced Surface Water Treatment Rule) did not require additional capital investment by Metropolitan.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

Metropolitan identified ozone disinfection as the most cost-effective option to minimize the production of DBPs and achieve other water quality objectives. Ozone is now used as the primary disinfectant at Diemer, Jensen, Mills, Skinner and Weymouth plants. The cost of implementing ozone treatment at all five plants was approximately \$1.1 billion.

(i) Reid Gardner Generating Station

Reid Gardner Generating Station (Plant) is a 557 megawatt coal-fired plant located near Moapa, Nevada. The Plant is owned and operated by Nevada Energy (NE). In 1983, DWR entered into a Participation Agreement to import power from the Plant to serve the State Water Project energy needs. DWR's interest in the Plant terminated on July 25, 2013. DWR and NE negotiated the terms of the divestiture including DWR's obligations to mitigate any environmental impacts associated with the electricity generated for DWR over the past thirty years. Metropolitan paid approximately 75.0 percent of DWR's costs associated with the generation of electricity at the Plant and will pay this proportion of DWR's assigned mitigation costs.

(j) Landfill Obligation

Federal and State laws and regulations require that Metropolitan perform certain maintenance and monitoring functions at its sole landfill site for 30 years after closure. They further require that a separate funding mechanism be established to ensure that sufficient funds are available for closure and postclosure costs. In October 1995, the landfill was closed and management's estimate of closure and postclosure costs for this site totaled approximately \$2.0 million. The required thirty-year postclosure maintenance and monitoring of the landfill officially started in January 1998; after the installation of the landfill's final cover was completed. Approximately \$18,100 was expended for post closure maintenance and monitoring activities during the nine months ended March 31, 2021 while no amounts were expended during the nine months ended March 31, 2020.

The actual cost of postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws or regulations. Funding of these costs has been derived from a separate trust account that has been established for closure and postclosure costs. The balance of the trust account is sufficient to cover the landfill liability.

7. PARTICIPATION RIGHTS IN STATE WATER PROJECT

Metropolitan is one of 29 water suppliers contracting with the State of California for a system to provide water throughout much of California. Under the terms of the State Water Contract, as amended, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project (see Note 6a). Metropolitan and the other contractors may also be responsible to the State for certain obligations of any contractor who defaults on its payments to the State.

Approximately 37 percent of Metropolitan's total expenditures during the nine months ended March 31, 2021 and 2020 pertained to its net payment obligations for the State Water Project. These payments were primarily based on the contractual water delivery request, the annually requested and actual deliveries received, and the cost of power required for such deliveries, offset by credits received from the project.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2021 and 2020

(Unaudited)

The State Water Contract provides Metropolitan rights to water through 2052 but Management's present intention is to exercise Metropolitan's option to extend the contractual period to at least 2085, under similar terms, based on the Agreement in Principle reached in 2014. This corresponds to an estimated 125-year service life for the original facilities. The State is obligated to provide specified quantities of water throughout the life of the contract, subject to certain conditions.

The State has power generation facilities associated with its reservoirs and aqueducts. The power generated is utilized by the system for water transportation purposes. Power generated in excess of system needs is marketed to various utilities and California's power market. The revenues resulting from sales of excess power reduce the costs of pumping. Metropolitan and the other water contractors are responsible for repaying the capital and operating costs of the power facilities regardless of the amount of power generated.

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1i and 6a). Metropolitan's share of system operations and maintenance costs is charged to expense.

Metropolitan amortizes a portion of capitalized participation rights each month using a formula that considers the total estimated cost of the project, the estimated useful life, and estimated production capacity of the assets based upon maximum annual contracted deliveries provided by the State of California. Amortization expense totaled \$107.0 million and \$106.3 million for the nine months ended March 31, 2021 and 2020, respectively.

8. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at March 31, 2021 and 2020 were as follows:

(Dollars in thousands)	March 31,	
	2021	2020
Prepaid water costs	\$ 239,657	\$ 247,117
Prepaid costs-Delta Habitat Conservation and Conveyance	58,627	58,627
Prepaid costs - Delta Conveyance Project	25,000	—
Prepaid costs-California WaterFix	7,494	7,494
Prepaid expenses	25,109	25,391
Preliminary design/reimbursable projects	16,996	12,481
Other	76,079	75,793
Total deposits, prepaid costs, and other	<u>448,962</u>	<u>426,903</u>
Less current portion	(59,665)	(63,746)
Noncurrent portion	\$ 389,297	\$ 363,157

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

(a) Prepaid Water Costs

Metropolitan has entered into several water exchange and storage agreements with other agencies. These agreements provide Metropolitan with additional reliable water supplies to supplement deliveries of Colorado River and SWP water. Metropolitan is also actively pursuing other agreements, both within and outside its service area, to provide additional water supplies. The exchange and storage agreements generally provide for advance delivery of water during periods when water is available. At a later time when water is needed, these programs can then return water to improve Metropolitan's reliability. Expenditures associated with these agreements have been recorded as prepaid costs and are charged to cost of water as the water is withdrawn. At March 31, 2021 and 2020, prepaid water costs totaled approximately \$239.7 million and \$247.1 million, respectively, based on volumes of 1,072 TAF and 1,158 TAF, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance

In March 2009, Metropolitan, other SWP contractors, federal Central Valley Project contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with DWR. The agreements are known collectively as the Delta Habitat Conservation and Conveyance Program (DHCCP) Funding Agreement and the Bay Delta Conservation Plan and Delta Habitat Conservation and Conveyance Plan (BDCP - DHCCP) Supplemental Funding Agreement. Metropolitan's three-year DHCCP agreement provides funding of approximately \$35.0 million for Metropolitan's share (24 percent). Metropolitan's two-year BDCP-DHCCP agreement provides funding of approximately \$25.0 million (25 percent). The funding provided by both agreements supports development of the BDCP which was later on adapted as California WaterFix (see Note 6b) through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. The two-tunnel California WaterFix project shifted to a single tunnel project referred to as the Delta Conveyance Project with the announcement of Governor Newsom on February 12, 2019. Total prepaid costs at March 31, 2021 and 2020 were \$58.6 million.

The Board approved a 47.2 percent funding commitment for planning and pre-construction costs for the Delta Conveyance Project on December 18, 2020. As a result, Metropolitan remitted \$25.0 million to DWR on January 15, 2021. Total prepaid costs for the Delta Conveyance Project as of March 31, 2021 was \$25.0 million.

(c) Prepaid Costs—California WaterFix

In fiscal year 2020, Metropolitan disbursed a total of \$41.5 million to DWR for preconstruction planning costs of the CWF in accordance with the advance funding agreement entered into in August 2018. The \$41.5 million was Metropolitan's share (31 percent) of the funding and DWR intends to refund Metropolitan for funds advanced through this agreement through bond financing actions. However, as a result of the shift to a single tunnel project and DWR's withdrawal of approval of the CWF Project as well as the rescission of other permitting applications (see Note 8b), Metropolitan has requested, on June 27, 2019, that DWR return its contributions that have not been spent as of May 2, 2019. In fiscal year 2020, DWR remitted \$34.0 million of unspent funds and \$.5 million of interest. Total prepaid costs at March 31, 2021 and 2020 were \$7.5 million.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

(d) Preliminary Design/Reimbursable Projects

Metropolitan engages in preliminary design activities prior to obtaining Board approval of capital projects. The costs of these designs are recorded as prepaid costs. Once Board approval is obtained, these costs are added to the cost of the relevant construction project.

Reimbursable projects include work Metropolitan is contracted to perform for outside, non-related parties, and is subsequently billed for reimbursement.

9. DEFERRED COMPENSATION AND SAVINGS PLANS

For the benefit of its employees, Metropolitan has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Metropolitan has established another compensation deferral arrangement in accordance with Section 401(k) of the Internal Revenue Code. The 401(k) Consolidated Savings Plan (savings plan) is available to substantially all employees. Metropolitan has established a matching contribution program, subject to a maximum of 4.5 percent of the employee's total cash compensation, on behalf of each participating employee in the savings plan. Amounts deferred by participants, Metropolitan matching contributions, and accumulated earnings thereon are fully vested.

Deferred amounts and matching contributions, if any, for both plans are transferred by Metropolitan each pay period to a third-party administrator who coordinates the investment of such proceeds in a variety of investment vehicles in accordance with the instructions of each participant. Accordingly, neither the assets nor the related liability of each plans were included in the accompanying basic financial statements at March 31, 2021 and 2020.

The Treasurer serves as Trustee for both the deferred compensation and savings plans. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in the plans.

10. NET POSITION

Net position is classified as either restricted, unrestricted, or net investment in capital assets, including State Water Project Costs.

Net investment in capital assets, including State Water Project costs consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition or construction of those assets and deferred outflows and inflows of resources related to debt. Metropolitan's capital assets, including State Water Project costs include plant and equipment (Note 1h), participation rights in State Water Project (Notes 1i and 7), and participation rights in other facilities. Net investment in capital assets, including State Water Project costs were approximately \$6.1 billion and \$6.2 billion at March 31, 2021 and 2020, respectively.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

The restricted component of net position are those items that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation. Restricted net position totaled \$582.2 million and \$470.1 million at March 31, 2021 and 2020, respectively, of which \$216.0 million and \$186.4 million, respectively, represents principal and interest set aside for the next bond payment and \$91.5 million and \$44.4 million, respectively, represents amounts restricted for capital projects. The remaining \$274.7 million and \$239.3 million as of such dates relates to estimated operating and maintenance expense for April and May 2021 and 2020, respectively. Each of these requirements are related to bond covenants.

The unrestricted component of net position are those items that do not meet the definition of “restricted” or “net investment in capital assets, including State Water Project costs.” Unlike the restricted net position, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The Board may at any time change or eliminate amounts established for these purposes. Unrestricted net position totaled \$335.2 million and \$288.9 million at March 31, 2021 and 2020, respectively.

11. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to the design, construction, treatment, and delivery of water resources. Metropolitan self-insures most of its property losses, the first \$25.0 million for general liability, fiduciary liability and directors' and officers' liability, and \$5.0 million for workers' compensation. Metropolitan supplements its self-insurance program with \$75.0 million excess general liability coverage, \$60.0 million excess fiduciary liability coverage, \$65.0 million excess for directors' and officers' liability coverage, and statutory limits excess workers' compensation coverage. Special insurance policies carried include aircraft hull and liability, a limited property damage policy, crime insurance, specialty crime coverage, and travel accident coverage. Coverage types and limits for fiscal year 2021 were unchanged from fiscal year 2020. Settlement amounts did not exceed the self-insurance or insurance coverage limits in any of the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. The present value of liabilities for unpaid claims is based on a 1.5 percent annual interest rate over the life of the claims.

12. COVID-19 PANDEMIC

Metropolitan is assessing the effects that the ongoing COVID-19 outbreak, and measures taken by State and local governments to slow the virus' spread, will have on Metropolitan and its business and operations, as well as in the region that comprises Metropolitan's service area. While federal and state governments, including California, have enacted legislation and have taken executive actions designed to mitigate the negative public health and economic impacts of the COVID-19 pandemic, Metropolitan is unable to predict whether such interventions will have the intended effects. Reduced economic activity and its associated impacts, including as a result of the COVID-19 outbreak itself, such as job losses, income losses, business closures and housing foreclosures or vacancies, and any

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2021 and 2020

(Unaudited)

prolonged recession that may occur, could have a variety of adverse effects on Metropolitan and in the region. Declines in assessed valuations in Metropolitan's service area and/or increases in property tax delinquencies or non-payment of taxes as a result of the economic disruption may negatively affect property tax collections and reduce tax levy receipts.

Economic conditions affect aggregate levels of retail water use and may reduce water demands in the region and Metropolitan's water transactions and revenues. A protracted disruption in the manufacturing or construction industry may affect supply chains or delay construction schedules for, or the implementation of, Metropolitan's capital improvement programs and projects, and may increase the costs of such projects or program or Metropolitan's water system operations. Sustained deterioration in global stock market values may impact the market value of assets held to fund Metropolitan's pension and other post-employment benefit plans, which could result in future increases in required plan contributions. The extent and period of disruption to or decline in the local and global economies, the duration of the outbreak, the imposed restrictions on activities, and the ramifications of future actions that may be taken or required by governmental authorities to contain and respond to the outbreak are uncertain, and no assurances can be given that Metropolitan's operations and finances will not be negatively affected.

13. SUBSEQUENT EVENTS

(a) Claims and Litigation

On April 6, 2021, in connection with the 2010 and 2012 SDCWA v. Metropolitan cases, the court entered the stipulated order awarding SDCWA \$13,397,575.66 in attorneys' fees under the Exchange Agreement.

On April 20, 2021, based on the parties' stipulation filed in July 2020, the court ordered the stay in the 2018 case lifted and granted SDCWA leave to file an amended petition/complaint. On April 21, 2021, SDCWA filed its amended petition/complaint. SDCWA removed claims in this amended petition/complaint comparably to those it removed in the 2014 and 2016 cases. The amended petition/complaint retains claims concerning the Water Stewardship Rate's inclusion in the wheeling rate and the Exchange Agreement price (notwithstanding that Metropolitan ceased charging the Water Stewardship Rate under the Exchange Agreement in January 2018), the inclusion of WaterFix costs in the wheeling rate and the Exchange Agreement price, and offsetting benefits with respect to the wheeling rate and the Exchange Agreement price.

In a Case Management Conference on April 22, 2021, the court stated the 2014, 2016, and 2018 cases will be consolidated. The court set a trial date in the three cases for May 16 through 27, 2022.

On April 23, 2021, in connection with the 2014 and 2016 SDCWA v. Metropolitan cases, SDCWA filed answers to the cross-complaints filed by Metropolitan on March 22, 2021. SDCWA's answers to Metropolitan's cross-complaints assert affirmative defenses.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS AND THE PAYING AGENT AGREEMENT

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS AND THE PAYING AGENT AGREEMENT

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

THE SUBORDINATE RESOLUTIONS

Definitions

The following are definitions of certain terms used in this Summary. Such definitions also apply to terms used in the Official Statement to the extent that such terms are not otherwise defined in the Official Statement. Terms not defined below have the meanings specified in the Subordinate Resolutions.

“Accrued 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 Accrued Value at any date to which reference is made will be the amount set forth in the Accrued Value Table as of such date, if such date is a compounding date, and if not, will be determined by straight-line interpolation with reference to such Accrued Value Table.

“Ad Hoc Committee” has the meaning ascribed to such term in the First Supplemental Subordinate Resolution.

“Additional Revenues” means all interest, profits and other income received from the investment of any moneys of Metropolitan and any other revenues (other than Operating Revenues) of Metropolitan, in each case to the extent available to pay principal and Accrued 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 Metropolitan specifies on or before the applicable Calculation Date in a Certificate of Metropolitan, 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 Metropolitan, 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 Metropolitan.

“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 Metropolitan specifies on or before the applicable Calculation Date in a Certificate of Metropolitan, 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 Metropolitan specifies on or before the applicable Calculation Date in a Certificate of Metropolitan, which is not less than five years and not greater than 40 years.

“Authorized Investments” means any investments in which Metropolitan 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 Metropolitan (in each case, as amended from time to time), as certified to each Fiscal Agent, and will include any Designated Investments.

“Authorized Representative” means each of the General Manager and the Chief Financial Officer and any other officer or employee of Metropolitan 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 Metropolitan delivers a Certificate of Metropolitan 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.

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

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

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

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

“Bond Register” means the Bond Register as defined in the Master Subordinate Resolution.

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

“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 Metropolitan is authorized to be closed.

“Calculation Date” means any date on which Metropolitan delivers any Certificate of Metropolitan to satisfy the requirements of the Master Subordinate Resolution.

“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 Metropolitan means, respectively, a written certificate, statement, request, requisition or order signed by an Authorized Representative.

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

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

“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 Metropolitan, 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 Metropolitan.

“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 Metropolitan pursuant to the Master Subordinate Resolution 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.

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

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

“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.

“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.

“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) above, all of which are to be computed on the assumption that no portion of such Covered Obligations will 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 will be excluded from such calculation and Assumed Debt Service will be included in such calculation; (b) if Metropolitan establishes a Commercial Paper Program pursuant to the Master Subordinate Resolution, 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) will be excluded from the calculation of Debt Service, and Commercial Paper Debt Service will be included into the calculation of Debt Service; (c) if Metropolitan enters into a Revolving Credit Agreement pursuant to the Master Subordinate Resolution, 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 will be excluded from the calculation of Debt Service, and Revolving Credit Agreement Debt Service will be included into the calculation of Debt Service; (d) if any Covered Obligations are Variable Rate Indebtedness, the interest rate on such Covered Obligations will 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 will be excluded to the extent that Metropolitan 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 Metropolitan; (f) if the Covered Obligations are Paired Obligations, the interest rate on such Covered Obligations will be the collective fixed interest rate to be paid by Metropolitan with respect to such Paired Obligations; (g) in determining the principal amount due on Covered Obligations in each Fiscal Year, payment (unless a different clause applies for purposes of determining principal maturities or amortization) will 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 will 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 Metropolitan 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 Metropolitan 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 Metropolitan 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 Metropolitan on or before the applicable Calculation Date) (each, a “Supported Debt”), then Metropolitan will calculate both the Supporting Debt and Supported Debt under the definition of Debt Service, and will 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 will only include the one that causes the amount of Average Annual Debt Service to be the highest; and (j) if Metropolitan 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 will be disregarded and not included in any calculation under the definition of Debt Service in the Master Subordinate Resolution.

Notwithstanding any other provision of the definition of Debt Service, except as set forth in (h) above, no amounts payable (including any settlement amounts or termination payments) under any interest rate swap agreement constituting a Covered Obligation will be included in the calculation of Debt Service. Except as otherwise provided in the definition of Debt Service, to the extent that any calculation under the definition of “Debt Service” 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 Metropolitan will use such other index, interest rate, or other amount in its

reasonable discretion in order to complete such calculation and that calculation will be binding on Metropolitan, 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.

“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 the First Supplemental Subordinate Resolution to act in accordance with and to carry out the Escrow Instructions relating to a Series of Subordinate Refunding Bonds.

“Escrow Instructions” means the escrow instructions relating to any Series of Subordinate Refunding Bonds authorized or required by the First Supplemental Subordinate Resolution.

“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 the First Supplemental Subordinate Resolution.

“Excluded Principal Payment” means each payment of principal or purchase price of Covered Obligations which Metropolitan designates (in the Supplemental Resolution or other document or certificate delivered on or before the Calculation Date) to be an Excluded Principal Payment. There will be no requirement for Metropolitan to designate any Excluded Principal Payment at the time of issuance of the related Covered Obligation. No such determination will affect the security for any Bonds or First Tier Parity Obligations or the obligation of Metropolitan 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 Metropolitan for borrowed money, (2) any obligations of Metropolitan for deferred purchase price, (3) any lease obligation of Metropolitan, or (4) any other obligation of Metropolitan, in each case, which Metropolitan 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 the Treasurer of Metropolitan.

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

“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 the Master Subordinate 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 Metropolitan 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 will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by Metropolitan (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, means Operating Revenues less Operating Expenses paid from Operating Revenues and (b) from and after any Pledge Change Designation, will mean Operating Revenues less (i) Operating Expenses paid from Operating Revenues and (ii) SWC Capital Payments paid from Operating Revenues.

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

“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 Metropolitan and as set forth in a Certificate of Metropolitan; provided that such period will be the same period for all calculations made on any Calculation Date.

“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 the Master Subordinate Resolution), all Bonds theretofore, or thereupon being,

authenticated and delivered by the Fiscal Agent for that Series under the Master Subordinate 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 Metropolitan will have been discharged in accordance with the Master Subordinate Resolution; (C) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Master Subordinate Resolution; and (D) Bonds no longer deemed to be outstanding under the Master Subordinate Resolution 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 in the Master Subordinate Resolution 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 Metropolitan for the term of such Bonds or First Tier Parity Obligations.

“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.

“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.

“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 Metropolitan 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 the Master Subordinate Resolution and any Supplemental Resolution.

“Refunded Bonds” has the meaning ascribed thereto under the caption “Sale of Subordinate Refunding Bonds; Application; Funds; Covenants-Establishment and Application of Escrow Funds-Establishment of Escrow Instructions and Appointment of Escrow Agent.”

“Refunding Bonds” means all Bonds whether issued in one or more Series, authorized pursuant to the Master Subordinate 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 Metropolitan.

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

“Remarketing Agreement” means a remarketing agreement between Metropolitan 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 Metropolitan to the Securities Depository as described in the First Supplemental Subordinate Resolution.

“Reserve Fund” means a Subordinate Water Revenue Refunding Bonds Reserve Fund established for a Series of Subordinate Refunding Bonds pursuant to the First Supplemental Subordinate Resolution.

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

“Revolving Credit Agreement” means any revolving credit agreement, line of credit agreement or similar agreement executed pursuant to the Master Subordinate Resolution.

“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 Metropolitan, 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 Metropolitan.

“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 Metropolitan may borrow from time to time for the purpose of providing Metropolitan 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.

“Second Tier Subordinate Obligations” means (1) any indebtedness or other obligation of Metropolitan for borrowed money, (2) any obligations of Metropolitan for deferred purchase price, (3) any lease obligation of Metropolitan, or (4) any other obligation of Metropolitan, in each case, which Metropolitan 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 Metropolitan may designate in a Request of Metropolitan delivered to any Fiscal Agent.

“Securities Depository” means the Securities Depository (initially DTC) acting as such under the First Supplemental Subordinate Resolution and which may be Metropolitan.

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

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

“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 the Master Subordinate Resolution.

“Subordinate Redemption Fund” means the Water Revenue Subordinate Bonds, Redemption Fund established pursuant to the Master Subordinate Resolution.

“Subordinate Refunding Bonds” has the meaning ascribed thereto in the First Supplemental Subordinate Resolution.

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

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

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

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

“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.

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

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

MASTER SUBORDINATE RESOLUTION

Content of Certificates and Opinions. Every certificate or opinion provided for in the Master Subordinate Resolution with respect to compliance with any provision thereof must include (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions in the Master Subordinate Resolution 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 Metropolitan 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 Metropolitan) upon a certificate or opinion of or representation by an officer or employee of Metropolitan, 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 Metropolitan, 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 the Master Subordinate Resolution, but different officers, employees, counsel, accountants or independent consultants may certify to different matters, respectively.

The Bonds

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 the Master Subordinate Resolution, 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 is surrendered for transfer, Metropolitan will execute and the Fiscal Agent for that Series will 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.

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 will require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

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 will at all times be open to inspection during normal business hours by Metropolitan; and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Master Subordinate Resolution.

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, will be of such denomination as may be determined by Metropolitan, will be in registered form and may contain such reference to any of the provisions of the Master Subordinate 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 will be executed by Metropolitan and authenticated by the Fiscal Agent upon the same conditions and in substantially the same manner as the definitive Bonds. If Metropolitan 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 will 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 will be entitled to the same benefits under the Master Subordinate Resolution as definitive Bonds authenticated and delivered under the Master Subordinate Resolution.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, Metropolitan at the expense of the Owner of said Bond, will execute, and the Fiscal Agent for such Bond will 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 will be canceled by it and destroyed. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to Metropolitan and the Fiscal Agent for that Bond and, if such evidence be satisfactory to both that Fiscal Agent and Metropolitan and indemnity satisfactory to them will be given, Metropolitan at the expense of the Owner, will execute, and that Fiscal Agent will 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 has matured or has 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). Metropolitan may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under the Master Subordinate Resolution and of the expenses which may be incurred by Metropolitan and the Fiscal Agent in connection with such replacement. Any Bond issued under the provisions of the Master Subordinate Resolution in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of Metropolitan whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Master Subordinate Resolution with all other Bonds secured by the Master Subordinate Resolution. Neither Metropolitan nor any Fiscal Agent will 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 under the Master Subordinate Resolution or for the purpose of determining any percentage of Bonds Outstanding under the Master Subordinate Resolution, but both the original and substitute Bond will be treated as one and the same.

Issuance of Bonds

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 Metropolitan 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 will be determined by the Board, but only upon compliance by Metropolitan with the provisions of the Master Subordinate Resolution and any additional requirements set forth in said Supplemental Resolution.

A Supplemental Resolution authorizing one or more Series of Bonds will 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 will 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 will 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 Metropolitan with respect to the Bonds of such Series and the pledges or provision of moneys, assets or security for any payments by Metropolitan 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 Metropolitan 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 the Master Subordinate Resolution. In lieu of expressly stating any of the foregoing, it will be sufficient if such Supplemental Resolution provides the method or procedure for determination of any of the foregoing.

General Provisions for the Issuance of Bonds. The Bonds of each Series will be executed by Metropolitan for issuance under the Master Subordinate Resolution and delivered to the Fiscal Agent for that Series and thereupon authenticated by the Fiscal Agent and delivered to Metropolitan on its order, but only upon receipt by that Fiscal Agent of the following: (a) a copy of the Master Subordinate 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 Metropolitan enforceable against Metropolitan in accordance with their terms, and (ii) that the Master Subordinate Resolution, including the Supplemental Resolution creating such Series, is a valid and binding obligation of Metropolitan enforceable in accordance with its terms; provided that such opinions may be qualified to the extent that the enforceability of the Bonds and the Master Subordinate 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 Metropolitan as to the delivery of such Series of Bonds.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by Metropolitan 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 Metropolitan 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.

A Series of Refunding Bonds may be executed by Metropolitan for issuance under the Master Subordinate Resolution and delivered to the Fiscal Agent for that Series and thereupon authenticated by the Fiscal Agent and delivered to Metropolitan or its order, but only upon receipt by that Fiscal Agent of the documents required by, and, if applicable, satisfaction of the requirements contained in, the Master Subordinate Resolution.

Application of Proceeds. Proceeds of each Series of Bonds will 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, will be forthwith canceled and will not be reissued.

Redemption of Bonds

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.

Redemption at the Direction of Metropolitan. In the case of any redemption of Bonds at direction of Metropolitan, Metropolitan will select Series, maturities and principal amounts thereof to be redeemed and Metropolitan will 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.

Redemption Otherwise than at the Direction of Metropolitan. 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 Metropolitan, the Fiscal Agent will, subject to receipt of any notice from Metropolitan pursuant to the Master Subordinate Resolution, select the Bonds to be redeemed as provided in the applicable Supplemental Resolution and will give the notice of redemption.

Selection of Bonds to be Redeemed. Except as otherwise provided in a Supplemental Resolution creating a Series of Bonds, if less than all Bonds of that Series are to be redeemed, the maturities of Bonds to be redeemed may be selected by Metropolitan. If Metropolitan does not give notice of its selection, such Fiscal Agent will, 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 will 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.

Revenues

Pledge of Net Operating Revenues. The Bonds of each Series are special limited obligations of Metropolitan and are secured by a pledge of and will be a charge upon and will 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 under the Master Subordinate Resolution and under the Supplemental Resolution creating that Series. Metropolitan 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 the Master Subordinate Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Subordinate Resolution, 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. Metropolitan 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 the Master Subordinate Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Subordinate Resolution, 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 pledged by the Master Subordinate Resolution 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 the Master Subordinate Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Subordinate Resolution. The pledges of Net Operating Revenues made in the Master Subordinate Resolution will be irrevocable until no Bonds, First Tier Parity Obligations or Second Tier Subordinate Obligations are Outstanding.

Equality of Security. In consideration of the acceptance of the Bonds by the Owners thereof from time to time, the Master Subordinate Resolution will be deemed to be and will constitute a contract between Metropolitan and the Owners from time to time of the Bonds, and the covenants and agreements set forth in the Master Subordinate Resolution to be performed by or on behalf of Metropolitan will be for the equal and proportionate benefit, security and protection of all Owners of the Bonds, without preference, priority or distinction as to security or otherwise of any Bond over any other Bond by reason of the Series, time of issue, sale or negotiation thereof or for any cause whatsoever, except as expressly provided therein or in the Master Subordinate Resolution. Notwithstanding the foregoing, nothing in the Master Subordinate Resolution will prevent additional security being provided to particular Bonds under any Supplemental Resolution.

Establishment of Funds and Accounts; Application. Metropolitan will establish, continue and maintain, as appropriate, in accordance with the terms of the Senior Debt Resolutions and of the Master Subordinate 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”).

All funds and accounts established or continued under the Master Subordinate Resolution or by any Supplemental Resolution will be held by the Treasurer or, if applicable, a Fiscal Agent and will 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 the Master Subordinate Resolution and any Supplemental Resolution.

Water Revenue Fund. Metropolitan will allocate all Operating Revenues to the Water Revenue Fund.

Reserve Funds. Upon the occurrence of any deficiency in any Reserve Fund, Metropolitan will 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.

Excess Earnings Funds. Metropolitan will 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 will be required pursuant to the Supplemental Resolution or other document creating such account.

Application of Funds and Accounts. All amounts in the Subordinate Bond Service Fund will be used and withdrawn by Metropolitan solely for the purposes of paying (i) interest on the Bonds as it becomes 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.

Notwithstanding the paragraph above, 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 Metropolitan, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to the foregoing provision will be delivered to the Fiscal Agent for such Bonds and canceled and destroyed by that Fiscal Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

Amounts on deposit in any reserve fund or account for a Series of Bonds will be used and withdrawn as provided in the Supplemental Resolution authorizing the issuance of such Series. Amounts

on deposit in any excess earnings or rebate fund or account established for a Series of Bonds will be used and withdrawn as provided in the Supplemental Resolution authorizing the issuance of such Series.

Establishment, Funding and Application of Subordinate Redemption Fund. Metropolitan will establish and the Treasurer will 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 will, unless otherwise directed by the Board, be deposited in the Subordinate Redemption Fund. All amounts deposited in the Subordinate Redemption Fund will 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 Metropolitan except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Subordinate Redemption Fund will 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 Metropolitan.

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent and established pursuant to the Master Subordinate Resolution will 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 will be credited to such fund or account when received. Notwithstanding anything to the contrary contained in the Master Subordinate Resolution, 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 will 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 the Master Subordinate 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 under the Master Subordinate Resolution will be accounted for separately as required by the Master Subordinate 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 will 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 will 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 will specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal Agent is to be allocated and will 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.

Pledge Change Designation. If, on any date, Metropolitan delivers a Certificate of Metropolitan to the Fiscal Agent satisfying each of the following requirements: (A) Metropolitan sets forth in such Certificate of Metropolitan that it has elected to effect a Pledge Change Designation; (B) Metropolitan certifies that, under the terms of the Senior Debt Resolution, it is prohibited from issuing or incurring any additional Senior Debt; and (C) Metropolitan certifies that, after giving effect to the Pledge Change Designation, it can satisfy the Master Subordinate Resolution 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 Metropolitan is delivered, the definition of Net Operating Revenues will be automatically amended and modified to read as set forth in paragraph (b) of the definition thereof.

Covenants of Metropolitan

Covenants. Metropolitan makes the following covenants with the Owners (to be performed by Metropolitan 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 Metropolitan to use any of its moneys other than the Operating Revenues. Said covenants will be in effect so long as any of the Bonds issued under the Master Subordinate Resolution are Outstanding.

Compliance with Senior Debt Resolution. Metropolitan will comply in all material respects with the Senior Debt Resolution.

Punctual Payment. Metropolitan has covenanted that it will duly and punctually pay or cause to be paid the principal and Accreted Value of and interest on every Bond issued under the Master Subordinate Resolution, together with the premium thereon, if any, on the date, at the place and in the manner mentioned in the Bonds in accordance with the Master Subordinate 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 the Master Subordinate Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Master Subordinate Resolution and any Supplemental Resolutions and of the Bonds issued under the Master Subordinate Resolution, and that time of such payment and performance is of the essence of Metropolitan's contract with the Owners of the Bonds. Metropolitan has covenanted 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 the Master Subordinate Resolution and any Supplemental Resolutions.

Maintenance and Operation of the Water System. Metropolitan 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 will be complied with, but Metropolitan will not be required to comply with any such orders so long as the validity or application thereof will 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.

Records and Accounts. Metropolitan will keep proper books of records and accounts of the Water System separate from all other records and accounts in which complete and correct entries will be made of all transactions relating to the Water System. Said books will 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.

Rates and Charges. In determining the amounts payable with respect to any of the rate covenant amounts and the amounts of rates and charges, Metropolitan may make such allowances for contingencies and error in estimates and may incorporate and use such reasonable assumptions as Metropolitan determines are appropriate and reasonable.

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

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), Metropolitan will not issue or incur any additional Bonds or First Tier Parity Obligations unless it delivers a Certificate of Metropolitan to the Fiscal Agent to the effect that, as of the Calculation Date (which date will 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 the Master Subordinate Resolution; and (2) the sum obtained from (A) at the option of Metropolitan, either the amount of (I) the Net Operating Revenues as shown by the books and records of Metropolitan 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 are in operation, as estimated by and set forth in a Certificate of Metropolitan, plus (B) at the option of Metropolitan, any or all of the items later designated in the foregoing covenant 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 Metropolitan delivers a Certificate of Metropolitan to the Fiscal Agent to the effect that, as of the Calculation Date (which date will 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 the Master Subordinate Resolution; (2) Metropolitan 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 the Master Subordinate Resolution 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 Metropolitan reasonably estimates on the Calculation Date will be Outstanding on the effective date of such Commercial Paper Program; then, for all purposes of the Master Subordinate Resolution, 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 will be deemed to be issued and incurred on the effective date of establishing the Commercial Paper Program and Metropolitan will not be required to satisfy any of the requirements set forth in the paragraph above at 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 Metropolitan delivers a Certificate of Metropolitan to the Fiscal Agent to the effect that any Commercial Paper Program has been terminated, the Commercial Paper Program will be deemed terminated for purposes of the Master Subordinate Resolution (including for purposes of calculating Debt Service). Metropolitan will 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 Metropolitan delivers a Certificate of Metropolitan to the Fiscal Agent to the effect that, as of the Calculation Date (which date will 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 the Master Subordinate Resolution; and (2) the requirements set forth in clause (2) of paragraph (a) above 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 Metropolitan reasonably estimates on the Calculation Date will be Outstanding on the effective date of the Revolving Credit Agreement; then, for all purposes of the Master Subordinate Resolution, any Bonds and First Tier Parity Obligations issued in connection with a Revolving Credit Agreement will be deemed to be issued and incurred on the effective date of the execution of the Revolving Credit Agreement, and Metropolitan will not be required to satisfy any of the requirements set forth in paragraph (a) above 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 the Master Subordinate Resolution 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 Metropolitan.

(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 Metropolitan.

(3) Any Additional Revenues for the NOR Period.

(4) Any other moneys of Metropolitan 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 Metropolitan.

(e) Any calculation required to be made under the foregoing provisions will be made by Metropolitan in its discretion and any calculation made by Metropolitan for these purposes will be conclusive and binding on the Owners and any other affected Persons for all purposes, absent manifest error. Nothing in the Master Subordinate Resolution will limit the ability of Metropolitan 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 under the Master Subordinate Resolution 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 the Master Subordinate Resolution or the instruments creating any First Tier Parity Obligations and Second Tier Subordinate Obligations.

Insurance. Metropolitan will 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 Metropolitan through the Water System. Such insurance or self-insurance will be in an adequate amount as to the risk insured against as determined by Metropolitan. Any self-insurance will be established in accordance with applicable law and will include reserves or reinsurance in amounts Metropolitan 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.

The Fiscal Agent

Appointment: Duties of Fiscal Agent. (A) Metropolitan 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 will act as the agent of Metropolitan and will perform such duties and only such duties as are specifically set forth in the Master Subordinate Resolution or the Supplemental Resolution pursuant to which it was appointed and no implied covenants will be read into the Master Subordinate Resolution or such Supplemental Resolution against the Fiscal Agent. Each Fiscal Agent will exercise such of the rights and powers vested in it by the Master Subordinate Resolution or the Supplemental Resolution pursuant to which it was appointed.

(B) Metropolitan may remove any Fiscal Agent at any time with or without cause and will remove any Fiscal Agent if at any time such Fiscal Agent ceases to be eligible in accordance with (E) below, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of such Fiscal Agent or its property is appointed, or any public officer takes 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 will 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 Metropolitan 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, Metropolitan will 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 will become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent has been appointed and has 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 the Master Subordinate Resolution, will signify its acceptance of such appointment by executing and delivering to Metropolitan and to its predecessor Fiscal Agent a written acceptance thereof, and thereupon such successor Fiscal Agent, without any further act, deed or conveyance, will become vested with all the rights, powers, duties and obligations of such predecessor Fiscal Agent, with like effect as if originally named Fiscal Agent in the Master Subordinate Resolution. Upon request of the successor Fiscal Agent, Metropolitan and the predecessor Fiscal Agent will 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 the Master Subordinate Resolution in succession to a Fiscal Agent will 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 will 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 the Master Subordinate Resolution the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor will 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, Metropolitan will appoint a new Fiscal Agent, which may be the corporation resulting from such reorganization. In case at any time a Fiscal Agent will cease to be eligible in accordance with the foregoing provisions, such Fiscal Agent will resign immediately in the manner and with the effect specified in the Master Subordinate Resolution.

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 under the Master Subordinate Resolution, and if no successor Fiscal Agent be then appointed, all such duties and all of the rights and powers of such Fiscal Agent will be assumed by and vest in the Treasurer in trust for the benefit of the Bondholders of such Series.

Liability of Fiscal Agent. (A) The recitals of facts in the Master Subordinate Resolution, in the Supplemental Resolution pursuant to which a Fiscal Agent is appointed and in the Bonds of such Series contained will be taken as statements of Metropolitan, 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 the Master Subordinate Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of the Master Subordinate Resolution thereon, or as to the financial or technical feasibility of any Project and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Master Subordinate Resolution or in the Bonds assigned to or imposed upon it. Each Fiscal Agent will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. A Fiscal Agent will not be liable in connection with the performance of its duties under the Master Subordinate Resolution, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Master Subordinate Resolution. 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 Metropolitan, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of Metropolitan and make disbursements for Metropolitan and enter into any commercial or business arrangement therewith, without limitation.

(B) A Fiscal Agent will not be liable for any error of judgment made in good faith by a responsible officer unless it will be proved that such Fiscal Agent was negligent in ascertaining the pertinent facts. A Fiscal Agent may execute any of the rights or powers of the Master Subordinate Resolution and perform the duties required of it under the Master Subordinate Resolution by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Master Subordinate Resolution, but such Fiscal Agent will be answerable for the negligence or misconduct of any such attorney-in fact, agent, or receiver selected by it; provided that such Fiscal Agent will 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 the Master Subordinate Resolution will 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 under the Master Subordinate Resolution or under the Supplemental Resolution pursuant to which it was appointed, or in the exercise of its rights or powers.

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

(E) No permissive power, right or remedy (if any) conferred upon a Fiscal Agent under the Master Subordinate Resolution will be construed to impose a duty to exercise such power, right or remedy.

(F) A Fiscal Agent will 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 will determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of Metropolitan, personally or by agent or attorney.

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

Right of Fiscal Agent to Rely on Documents. A Fiscal Agent will 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 Metropolitan, with regard to legal questions, and the written opinion of such counsel addressed to the particular Fiscal Agent will be full and complete authorization and protection in respect of any action taken or suffered by it under the Master Subordinate Resolution in good faith and in accordance therewith unless it is proved that a Fiscal Agent was negligent in ascertaining the pertinent facts.

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

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 Metropolitan 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 by the Master Subordinate Resolution.

Modification or Amendment of the Master Subordinate Resolution

Amendments Permitted. (A) (1) The Master Subordinate Resolution and the rights and obligations of Metropolitan, the Owners of the Bonds and any Fiscal Agent may be modified or amended from time to time and at any time by filing with each Fiscal Agent (or if such modification or amendment is only applicable to a Series of Bonds, to such Fiscal Agent) a Supplemental Resolution, adopted by the Board with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Resolution is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Master Subordinate Resolution.

(2) No such modification or amendment will (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 the Master Subordinate Resolution prior to or on a parity with the lien created by the Master Subordinate Resolution, or deprive the Owners of the Bonds of the lien created by the Master Subordinate Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Master Subordinate 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 will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it will be sufficient if such consent will approve the substance thereof. It will not be necessary for all Bondholders consenting to any amendments or modifications of the Master Subordinate Resolution to consent on one date and Metropolitan 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 the foregoing provision, the Fiscal Agent for each Series of Bonds that may be affected by any such modification or amendment will mail a notice provided by Metropolitan, 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, will not, however, in any way impair or affect the validity of any such Supplemental Resolution.

(B) The Master Subordinate Resolution and the rights and obligations of Metropolitan, of each Fiscal Agent and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Resolution, which the Board may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of Metropolitan in the Master Subordinate 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 reserved to or conferred upon Metropolitan in the Master Subordinate Resolution, in each

case which will 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 the Master Subordinate Resolution, or in regard to matters or questions arising under the Master Subordinate Resolution, as the Board may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of any of the Bonds; (3) to modify, amend or supplement the Master Subordinate Resolution in such manner as to permit the qualification of the Master Subordinate Resolution under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will 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 Metropolitan may deem desirable; subject to the provisions of the Master Subordinate Resolution; (5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision will materially and adversely affect the interests of the Owners of any of the Bonds; (6) if Metropolitan 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.

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.

Consents Effective on Tender. Notwithstanding any provision of the Master Subordinate Resolution to the contrary, the Owners of any Series of Bonds will be deemed to consent to any modification or amendment of the Master Subordinate 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.

Amendment to Name of the Bonds and Resolution. Notwithstanding any provision of the Master Subordinate Resolution to the contrary, Metropolitan may modify or amend the name of the Bonds and the name of the Master Subordinate 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 Metropolitan certifying that, under the terms of the Senior Debt Resolution, it is prohibited from issuing or incurring any additional Senior Debt.

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

Endorsement of Bonds: Preparation of New Bonds. Bonds delivered after any Supplemental Resolution becomes effective pursuant to the Master Subordinate Resolution may, and if a Fiscal Agent so

determines will, 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 will be made on such Bond. If a Supplemental Resolution so provides, 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, will be prepared and executed by Metropolitan and authenticated by such Fiscal Agent, and upon demand of the Owners of any Bonds then Outstanding will 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.

Amendment of Particular Bonds. The provisions of the Master Subordinate Resolution will 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.

Defeasance

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

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 the Master Subordinate Resolution) 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 will have been given as provided in the Master Subordinate Resolution or provision satisfactory to such Fiscal Agent will have been made for the giving of such notice, then all liability of Metropolitan in respect of such Bond will cease, terminate and be completely discharged; provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and Metropolitan will 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 the Master Subordinate Resolution and the continuing duties of the

Fiscal Agent for such Series under the Master Subordinate Resolution. Upon defeasance and discharge of any Bond as provided in the Master Subordinate Resolution, the Fiscal Agent will provide notice thereof to the Owner of such Bond. Metropolitan may at any time surrender to the Fiscal Agent for a Series for cancellation by it any Bonds previously issued and delivered, which Metropolitan may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

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 the Master Subordinate 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 the Master Subordinate Resolution for such Bonds and will 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 will have been given as provided in the Master Subordinate Resolution or provision satisfactory to the Fiscal Agent for such Series will have been made for the giving of such notice, the amount to be deposited or held will 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 has been given as provided in the Master Subordinate Resolution or provision satisfactory to the Fiscal Agent for such Series has been made for the giving of such notice; provided, in each case, that the Fiscal Agent for such Series has been irrevocably instructed (by the terms of the Master Subordinate Resolution or by Request of Metropolitan) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

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 the Master Subordinate 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, will, upon Request of Metropolitan, be released from the trusts created by the Master Subordinate 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 will thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of Metropolitan) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on Bonds of such Series, whether at redemption or maturity, will 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 will not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than

Metropolitan) for any interest earned on, moneys so held. Any interest earned thereon and not needed to pay principal or Accreted Value of or interest on the Bonds will be promptly released to Metropolitan and will be promptly deposited into the Water Revenue Fund.

Defaults and Remedies

Events of Default. Each of the following events will be an “Event of Default”: (a) default by Metropolitan 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 Metropolitan in the due and punctual payment of the interest on any Bond; (c) failure of Metropolitan 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 Metropolitan 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 Metropolitan to observe and perform any of its other covenants, conditions or agreements under the Master Subordinate Resolution or in the Bonds for a period of 90 days after written notice from the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of Metropolitan to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence; (f) the occurrence of an “event of default” under the Senior Debt Resolution; (g) (1) failure of Metropolitan generally to pay its debts as the same become due, (2) commencement by Metropolitan of a voluntary case under the Federal bankruptcy laws, as now or later constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by Metropolitan to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for Metropolitan, the Water System or any substantial part of Metropolitan’s property, or to the taking possession by any such official of the Water System or any substantial part of Metropolitan’s property, (4) making by Metropolitan of any assignment for the benefit of creditors, or (5) taking of corporate action by Metropolitan in furtherance of any of the foregoing; (h) the entry of any (1) decree or order for relief by a court having jurisdiction over Metropolitan or its property in an involuntary case under the Federal bankruptcy laws, as now or later constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for Metropolitan, the Water System or any substantial part of Metropolitan’s property, or (3) order for the termination or liquidation of Metropolitan or its affairs; or (i) failure of Metropolitan 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 clause (e) above are subject to the limitation that if by reason of force majeure Metropolitan is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Master Subordinate Resolution, Metropolitan will not be deemed in default during the continuance of such disability. The term “force majeure” as used in the Master Subordinate Resolution will 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 Metropolitan. Metropolitan will, 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 will be entirely within the discretion of

Metropolitan, and Metropolitan will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

Bondholders' Committee. If an Event of Default has occurred and is 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) will prescribe the manner in which the successors of the persons elected to the Bondholders' Committee will be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it in the Master Subordinate Resolution, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee is declared by the Master Subordinate Resolution 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 Master Subordinate Resolution on any Owner, provided, however, that whenever any provision of the Master Subordinate Resolution requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Master Subordinate Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either will have been elected by or their election will have been approved by or concurred in, and such committee will 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, will be filed with the Authorized Representative.

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

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 will be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as Metropolitan itself might do. No bond will be required of such receiver.

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 contained in the Master Subordinate Resolution.

No remedy conferred by the Master Subordinate Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy will be cumulative and will be in addition to any other remedy given to the Bondholders under the Master Subordinate Resolution or now or later 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 will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence in the Master Subordinate Resolution, 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 under the Master Subordinate Resolution by the Owners will extend to or will affect any subsequent default or Event of Default or will impair any rights or remedies consequent thereon.

Unconditional Rights To Receive Principal, Accreted Value, Premium and Interest. Nothing in the Master Subordinate Resolution will, 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 provided in the Master Subordinate Resolution, or the obligation of Metropolitan to pay the principal and Accreted Value of, premium, if any, and interest on each of the Bonds issued under the Master Subordinate Resolution to the respective holders thereof at the time and place, from the source and in the manner in the Master Subordinate Resolution and in the Bonds expressed.

Miscellaneous

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

The general fund of Metropolitan 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 Metropolitan pledged for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any Bond will not compel the exercise of the taxing power by Metropolitan 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 Metropolitan 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.

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

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

Waiver of Notice. Whenever in the Master Subordinate 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 will not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Destruction or Delivery of Canceled Bonds. Whenever in the Master Subordinate 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 so requires), and deliver a certificate of such destruction to the Treasurer.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Master Subordinate Resolution or in the Bonds is for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Master Subordinate Resolution and such invalidity, illegality or unenforceability will not affect any other provision of the Master Subordinate Resolution, and the Master Subordinate Resolution will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Master Subordinate Resolution. The Board declares by the Master Subordinate Resolution that it would have adopted the Master Subordinate Resolution and each and every other Section, paragraph, sentence, clause or phrase of the Master Subordinate Resolution 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 the Master Subordinate Resolution may be held illegal, invalid or unenforceable.

Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by the Master Subordinate Resolution to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and will 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, will be sufficient for any purpose of the Master Subordinate Resolution and will be conclusive in favor of the Fiscal Agent for such Series and of Metropolitan if made in the manner provided in the Master Subordinate Resolution.

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 will 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 will 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 Metropolitan in accordance therewith or reliance thereon.

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 the Master Subordinate Resolution, Bonds which are owned or held by or for the account of Metropolitan, 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, Metropolitan or any other obligor on the Bonds (except for any remarketing or other underwriting agent), will 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 the Master Subordinate Resolution if the pledgee establishes 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, Metropolitan 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 will be full protection to such Fiscal Agent.

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) will, on and after such date and pending such payment, be set aside on Metropolitan's books and held in trust by the Treasurer for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Master Subordinate Resolution.

Funds and Accounts. Any fund required by the Master Subordinate Resolution to be established and maintained by Metropolitan or a Fiscal Agent may be established and maintained in the accounting records of Metropolitan 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 will 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.

Proceedings Constitute Contract. The provisions of the Master Subordinate Resolution will constitute a contract between Metropolitan and the Bondholders of such Bonds, and the provisions of the Master Subordinate Resolution and thereof will 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 later be authorized under the laws of the State in any court of competent jurisdiction.

No remedy conferred by the Master Subordinate Resolution 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 will affect any subsequent default or breach of duty or contract or will 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 will impair any such right or power or will 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 will be brought or taken and the Bondholder prevails, said Bondholder will 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, Metropolitan and the Bondholder will 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, the Master Subordinate Resolution will be irrepealable, but will be subject to modification to the extent and in the manner provided in the Master Subordinate Resolution, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Master Subordinate Resolution will be deemed to restrict or prohibit Metropolitan from making contracts or creating bonded or other indebtedness payable from the general fund of Metropolitan, 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 Metropolitan will not include the Net Operating Revenues and no contract or other obligation payable from the general fund of Metropolitan will be payable from the Net Operating Revenues, except as provided in the Master Subordinate Resolution.

Waiver of Personal Liability. No Board member, officer, agent or employee of Metropolitan or any Fiscal Agent will 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 contained in the Master Subordinate Resolution will relieve any such Board member, officer, agent or employee of Metropolitan or any Fiscal Agent from the performance of any official duty provided by law or by the Master Subordinate Resolution.

Governing Law. The Master Subordinate Resolution will be construed and governed in accordance with the laws of the State of California.

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 will become due or will be made on the next succeeding Business Day and no interest will accrue for such period.

FIRST SUPPLEMENTAL SUBORDINATE RESOLUTION

The Subordinate Refunding Bonds

CUSIP Identification Numbers. The Underwriters will order, and Metropolitan will cause to be printed on the Subordinate Refunding Bonds, CUSIP identification numbers. However, CUSIP identification numbers will be deemed to not be part of the Subordinate Refunding Bonds or a part of the

contract evidenced thereby and no liability will attach to Metropolitan or its officers, employees or agents because of or on account of such CUSIP identification numbers.

Book-Entry System. The Fiscal Agent will 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 will be valid and effective to fully satisfy and discharge the obligations under the First Supplemental Subordinate Resolution 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, will receive a Subordinate Refunding Bond of any Series evidencing the obligation to make payments of principal and interest and premium, if any, pursuant to the First Supplemental Subordinate Resolution. Upon delivery by the Securities Depository to the Fiscal Agent and Metropolitan 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 in the First Supplemental Subordinate Resolution with respect to record dates, the word Nominee in the First Supplemental Subordinate Resolution will refer to such new nominee of the Securities Depository.

Representation Letter. To qualify the Subordinate Refunding Bonds of any Series for the Securities Depository's book-entry system, each Authorized Representative is authorized by the First Supplemental Subordinate Resolution to execute and deliver on behalf of Metropolitan to such Securities Depository a letter, if necessary, from Metropolitan representing such matters as is necessary to so qualify the Subordinate Refunding Bonds of such Series (the "Representation Letter"). The execution and delivery of the Representation Letter will not in any way limit the provisions of the First Supplemental Subordinate Resolution or in any other way impose upon Metropolitan 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 will agree to take all actions necessary to comply with all representations of Metropolitan in the Representation Letter. In addition to the execution and delivery of the Representation Letter, each Authorized Representative of Metropolitan is authorized by the First Supplemental Subordinate Resolution to take any other actions, not inconsistent with the First Supplemental Subordinate Resolution, to qualify the Subordinate Refunding Bonds of any Series for the Securities Depository's book-entry program.

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) Metropolitan determines that the Securities Depository will, 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 Metropolitan 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 Metropolitan determines to replace the Securities Depository with another qualified securities depository, Metropolitan will 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 Metropolitan and the Securities Depository as are not inconsistent with the terms of the First Supplemental Subordinate Resolution. If Metropolitan fails to identify another qualified securities depository to replace the Securities Depository, then the Subordinate Refunding Bonds of such Series will no longer be restricted to being registered in the Bond Register of the Fiscal Agent in the name of the Nominee, but will be registered in whatever name or names the Participants transferring or exchanging Subordinate Refunding Bonds will designate, in accordance with the provisions of the Master Subordinate Resolution and the provisions of the Trust Agreement for such Series.

Payments and Notices to the Nominee. Notwithstanding any other provision of the 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 will be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Securities Depository.

Sale of Subordinate Refunding Bonds; Application; Funds; Covenants

Establishment and Application of Escrow Funds.

(A) Establishment of Escrow Funds. In connection with the issuance of any Series of Subordinate Refunding Bonds, Metropolitan will establish a special trust fund with respect to the Refunded Bonds. Such special fund will be designated as the “Subordinate Water Revenue Refunding Bonds Escrow Fund” and will bear such additional designation as will be determined by an Authorized Representative. Each Escrow Fund established pursuant to the terms of the First Supplemental Subordinate Resolution will 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 will 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 has been 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 will be subject to such terms and conditions, and the Escrow Instructions will contain such terms, conditions and provisions, as such Authorized Representative, acting in his or her sole discretion, deems to be in the best interests of Metropolitan 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 will, in his or her sole discretion, deem to be the best interests of Metropolitan, 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 will 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 in the First Supplemental Subordinate Resolution 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 will 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, Metropolitan will 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.

Establishment and Application of Excess Earnings Funds. To ensure proper compliance with the tax covenants contained in the First Supplemental Subordinate Resolution, if required by the related Tax and Nonarbitrage Certificate, Metropolitan will establish and the Treasurer will maintain a fund for each Series of Subordinate Refunding Bonds issued under the First Supplemental Subordinate Resolution, which fund will be separate from any other fund or account established and maintained under the First Supplemental Subordinate Resolution or under the Master Subordinate Resolution and will be designated as the “Subordinate Water Revenue Refunding Bonds Excess Earnings Fund” and will bear such additional designation as will 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 will be held by the Treasurer for the account of Metropolitan in trust for payment to the federal government of the United States of America, and neither Metropolitan nor any Owner of Subordinate Refunding Bonds of such Series will have any rights in or claim to such money. All amounts deposited into or on deposit in any such Excess Earnings Fund will be governed by the First Supplemental Subordinate Resolution and by the Tax and Nonarbitrage Certificate with respect to such Series. The Treasurer will invest all amounts held in any such Excess Earnings Fund in accordance with the applicable Tax and Nonarbitrage Certificate. Money will 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.

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, Metropolitan has covenanted to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and Metropolitan has agreed to comply with the covenants contained in, and the instructions given pursuant to, the Tax and Nonarbitrage Certificate which by reference is incorporated in the First Supplemental Subordinate Resolution, as a source of guidance for compliance with such provisions.

Notwithstanding any other provisions of the Master Subordinate Resolution or the First Supplemental Subordinate Resolution to the contrary, upon Metropolitan’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 will be entitled to exercise any right or remedy provided to the Owners under the Master Subordinate Resolution or the First Supplemental Subordinate Resolution on the basis of Metropolitan’s failure to observe, or refusal to comply with, such covenant.

Undertakings

Municipal Securities Disclosure. Metropolitan 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 Metropolitan do so.

Metropolitan has agreed by the First Supplemental Subordinate Resolution 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 Metropolitan in connection with such Series of Subordinate Refunding Bonds.

Default. Failure to comply with the disclosure undertakings provisions of the First Supplemental Subordinate Resolution will not be deemed an Event of Default under the Master Subordinate Resolution. The sole remedy under the First Supplemental Subordinate Resolution in the event of any failure of Metropolitan to comply with the disclosure undertakings provisions of the First Supplemental Subordinate Resolution will be an action to compel performance, and no person or entity will be entitled to recover monetary damages under the First Supplemental Subordinate Resolution under any circumstances.

Amendment. The disclosure undertakings provisions of the First Supplemental Subordinate Resolution may be amended, supplemented, modified or deleted, from time to time and at any time, as Metropolitan may determine without the consent of any Owner of the Subordinate Refunding Bonds.

Miscellaneous

Subordinate Refunding Bonds Subject to the Master Subordinate Resolution. Except as expressly provided in the First Supplemental Subordinate Resolution, every term and condition contained in the Master Subordinate Resolution will apply to the First Supplemental Subordinate Resolution and to the Subordinate Refunding Bonds with the same force and effect as if it were set forth at length in the First Supplemental Subordinate Resolution, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the First Supplemental Subordinate Resolution. The Master Subordinate Resolution, as amended and supplemented by the First Supplemental Subordinate Resolution, is in all respects ratified and approved.

Severability of Invalid Provisions. If any one or more of the provisions contained in the First Supplemental Subordinate Resolution or in the Subordinate Refunding Bonds will for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the First Supplemental Subordinate Resolution and such invalidity, illegality or unenforceability will not affect any other provision of the First Supplemental Subordinate Resolution, and the First Supplemental Subordinate Resolution will be construed as if such invalid or illegal or unenforceable provision had never been contained in the First Supplemental Subordinate Resolution. Metropolitan declares by the First Supplemental Subordinate Resolution that it would have adopted the First Supplemental Subordinate Resolution and each and every other Section, paragraph, sentence, clause or phrase of the First Supplemental Subordinate Resolution 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 the First Supplemental Subordinate Resolution may be held illegal, invalid or unenforceable.

Governing Law. The First Supplemental Subordinate Resolution will be construed and governed in accordance with the laws of the State of California.

PAYING AGENT AGREEMENT

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

Definitions

“Account” means any account established pursuant to the Paying Agent Agreement.

“Adjustable Interest Rate” means a rate of interest payable with respect to any Series 2021 A Bonds prior to the Fixed Rate Date, determined pursuant to the Paying Agent Agreement.

“Alternate Liquidity Facility” means a letter of credit and related reimbursement agreement, line of credit, standby bond purchase agreement or similar agreement providing for the purchase of all or a portion of the Series 2021 A Bonds tendered pursuant to the Paying Agent Agreement that Metropolitan delivers to the Paying Agent pursuant to the Paying Agent Agreement in substitution of any Liquidity Facility then in effect, including any renewal or extension of the term thereof, as each such agreement may be amended, supplemented or otherwise modified from time to time, issued and delivered to the Paying Agent.

“Authorized Denominations” means: (a) with respect to any Series 2021 A Bonds bearing interest in the Long Mode or at a Fixed Interest Rate, \$5,000 and any integral multiple thereof; and (b) with respect to any Series 2021 A Bonds bearing interest in the Flexible Index Mode, the Index Mode, the Daily Mode, the Weekly Mode or the Short-Term Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof.

“Authorized District Representative” means the Assistant General Manager/Chief Financial Officer and Treasurer of Metropolitan, the Treasurer of Metropolitan or any officer authorized to act on behalf of either of such officers.

“Bank Bond” or “Bank Bonds” means any Series 2021 A Bond or Series 2021 A Bonds purchased with moneys provided under any Liquidity Facility and any Series 2021 A Bonds issued in exchange for or in replacement or substitution thereof.

“Bank Bond Rate” means, at any date of determination, the rate of interest then borne by Bank Bonds as determined under the applicable Liquidity Facility then in effect.

“Beneficial Owner” means, wherever used with respect to a Series 2021 A Bond, the person in whose name such Series 2021 A Bond is recorded as the beneficial owner of such Series 2021 A Bond by a Participant on the records of such Participant, or such person’s subrogee.

“Bond Counsel” means a firm of attorneys nationally recognized as experts in the area of municipal finance who are familiar with the transactions contemplated under the Paying Agent Agreement and acceptable to Metropolitan.

“Bond Interest Term” means, with respect to any Series 2021 A Bond, a period established in accordance with the Paying Agent Agreement during which such Series 2021 A Bond will bear interest at a Bond Interest Term Rate.

“Bond Interest Term Rate” means, with respect to any Series 2021 A Bond, a rate of interest per annum on such Series 2021 A Bond, established periodically in accordance with the Paying Agent Agreement.

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

“Book-Entry Bonds” means the Series 2021 A Bonds held by DTC (or its nominee) as the Owner thereof pursuant to the terms and provisions of the Paying Agent Agreement.

“Business Day” means any day (a) other than a Saturday or a Sunday; (b) other than a day on which banking institutions are authorized or required by law or executive order to be closed for commercial banking purposes in the cities and states in which the principal corporate trust office of the Paying Agent or the Initial Liquidity Provider or the funding office of the Initial Liquidity Provider are located or (c) on which the New York Stock Exchange is open for business.

“Call Protection Date” means the Standard Call Protection Date, unless Metropolitan determines a different date pursuant to the provisions of the Paying Agent Agreement, as applicable.

“Closing Date” means June 16, 2021.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations applicable thereto or issued thereunder or any successor statute thereto.

“Corporate Trust Office” means with respect to the initial Paying Agent its corporate trust office located at 333 S. Grand Avenue, Fifth Floor, Suite 5A, Los Angeles, California 90071, or, solely for purposes of the presentation of the Series 2021 A Bonds for payment, transfer or exchange, the corporate trust operations or agency office designated by the Paying Agent. The Paying Agent may later designate alternate Corporate Trust Offices and any successor Paying Agent will designate its Corporate Trust Office by written notice delivered to the Notice Parties.

“Daily Mode” means an Interest Mode in which the interest rate payable with respect to the Series 2021 A Bonds is determined on each Business Day by the Remarketing Agent pursuant to the Paying Agent Agreement.

“Daily Rate” means a rate of interest payable with respect to the Series 2021 A Bonds in a Daily Mode, established by the Remarketing Agent in accordance with the Paying Agent Agreement.

“Daily Rate Period” means each period during which a Daily Rate for the Series 2021 A Bonds is in effect.

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

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

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

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

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

“District Bonds” means Self-Liquidity Bonds or beneficial interests therein that Metropolitan purchases pursuant to the Paying Agent Agreement and the Series 2021 A Bonds issued in exchange for and in replacement or substitution thereof; *provided, however*, that “District Bonds” will not include any Liquidity Supported Bonds that Metropolitan owns or any Self-Liquidity Bonds that Metropolitan purchases for its own account outside of and other than the purchase of Series 2021 A Bonds tendered pursuant to the optional or mandatory tender provisions of the Paying Agent Agreement (other than in connection with the Flexible Index Mode or Index Mode).

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

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

“Event of Default” has the meaning given such term in the Paying Agent Agreement.

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

“Failed Tender” has the meaning given such term in the Paying Agent Agreement. For avoidance of doubt, a Failed Tender does not include any failure of Metropolitan to pay the Purchase Price of Series 2021 A Bonds tendered for purchase pursuant to the optional or mandatory tender provisions of the Paying Agent Agreement in connection with the Flexible Index Mode or the Index Mode.

“Favorable Opinion of Bond Counsel” means, with respect to any action the occurrence of which requires such an opinion, an unqualified opinion of Bond Counsel to the effect that such action is authorized and permitted under the Act, the Resolutions and the Paying Agent Agreement, complies with the Resolutions and the Paying Agent Agreement and will not impair the exclusion of interest on the Series 2021 A Bonds from gross income for purposes of Federal income taxation or the exemption of interest on the Series 2021 A Bonds from personal income taxation under the laws of the State (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Series 2021 A Bonds).

“Fiscal Year” means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other period as Metropolitan designates as its fiscal year.

“Fitch” means Fitch, Inc., doing business as Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns and, if such corporation will for any reason no longer perform the functions of a securities rating agency, “Fitch” will be deemed to refer to any other nationally recognized rating agency designated by Metropolitan.

“Fixed Interest Rate” means an annual rate of interest payable with respect to the Series 2021 A Bonds from and after the Fixed Rate Date upon conversion to a Fixed Interest Rate, established by the Remarketing Agent pursuant to the Paying Agent Agreement.

“Fixed Rate Date” means the date on which the annual rate of interest with respect to the Series 2021 A Bonds becomes fixed and determined for the remainder of the term of the Series 2021 A Bonds pursuant to the terms of the Paying Agent Agreement.

“Flexible Index Mode” means an Interest Mode in which the interest rate payable with respect to the Bonds is adjusted pursuant to the Paying Agent Agreement, and the Tender Period of which does not exceed two hundred seventy (270) days.

“Flexible Index Mode Scheduled Mandatory Tender” means the mandatory tender for purchase of Series 2021 A Bonds in the Flexible Index Mode pursuant to the provisions of the Paying Agent Agreement.

“Flexible Index Mode Scheduled Mandatory Tender Failure” means the failure of Metropolitan to pay or provide for the payment of the Purchase Price of all Series 2021 A Bonds tendered pursuant to a Flexible Index Mode Scheduled Mandatory Tender on a Scheduled Mandatory Tender Date.

“First Supplemental Subordinate Resolution” has the meaning set forth in the recitals of the Paying Agent Agreement.

“Fund” means any fund established pursuant to the Paying Agent Agreement.

“Holder” or “Owner” means the registered owner of any Series 2021 A Bonds as indicated in the Bond Register maintained under the Paying Agent Agreement, including DTC or its nominee as the sole registered owner of Book-Entry Bonds.

“Index Mode” means an Interest Mode in which the interest rate payable with respect to the Series 2021 A Bonds is adjusted pursuant to the Paying Agent Agreement, and the Tender Period of which may exceed two hundred seventy (270) days.

“Index Mode Scheduled Mandatory Tender” means the mandatory tender for purchase of Series 2021 A Bonds in the Index Mode pursuant to the provisions of the Paying Agent Agreement.

“Index Mode Scheduled Mandatory Tender Failure” means the failure of Metropolitan to pay or provide for the payment of the Purchase Price of all Series 2021 A Bonds tendered pursuant to an Index Mode Scheduled Mandatory Tender on a Scheduled Mandatory Tender Date.

“Index Rate Accrual Period” means, for Series 2021 A Bonds in a Flexible Index Mode or an Index Mode, the period from each Interest Accrual Date to and including: (a) the day next preceding the next Interest Payment Date for such Series 2021 A Bonds; and (b) the day next preceding any Redemption Date, as applicable.

“Index Spread” means, with respect to each Tender Period for Series 2021 A Bonds in a Flexible Index Mode or an Index Mode, a fixed per annum rate determined by the Remarketing Agent in accordance with the Paying Agent Agreement.

“Index Tender Rate” means, with respect to Series 2021 A Bonds bearing interest in the Flexible Index Mode or the Index Mode, the per annum rate of interest, determined for any Index Rate Accrual Period, equal to the sum of: (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period; and (b) the Index Spread applicable for the related Tender Period.

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

“Initial Liquidity Facility” means the Standby Bond Purchase Agreement, dated as of June 1, 2021, by and between Metropolitan and the Initial Liquidity Provider as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Initial Liquidity Provider” means Bank of America, N.A.

“Interest Accrual Date” means with respect to any period during which the Series 2021 A Bonds are in the Weekly Mode, the effective date of the change in Interest Mode to the Weekly Mode and, thereafter, each Interest Payment Date while the Series 2021 A Bonds are in the Weekly Mode.

“Interest Mode” means, at any time, the mode in which the Series 2021 A Bonds bear interest at an Adjustable Interest Rate and includes the Flexible Index Mode, the Index Mode, the Daily Mode, the Weekly Mode, the Short-Term Mode and the Long Mode.

“Interest Payment Date” means: (i) during such time as the Series 2021 A Bonds are in a Flexible Index Mode or an Index Mode (including during any Purchase Default Period), the first Business Day of each calendar month, each Mandatory Purchase Date in connection with a Flexible Index Mode Unscheduled Mandatory Tender or an Index Mode Unscheduled Mandatory Tender, as the case may be, and each Scheduled Mandatory Tender Date (without duplication); (ii) during such time as the Series 2021 A Bonds bear interest in the Daily Mode or Weekly Mode, the first Business Day of each calendar month, commencing on August 2, 2021; (iii) during such time as the Series 2021 A Bonds are in the Short-Term Mode, the day next succeeding the last day of each Bond Interest Term; (iv) with respect to any Long Period or period in which the Series 2021 A Bonds bear interest at the Fixed Interest Rate, each January 1 and July 1 (subject to the Paying Agent Agreement); (v) the effective date of a change in Interest Mode (or the day that would have been the effective date of a change in Interest Mode (or date of commencement of a new Long Period) had one of the events specified in the Paying Agent Agreement not occurred) (without duplication); (vi) the Fixed Rate Date (without duplication); (vii) the date of final maturity of the Series 2021 A Bonds (without duplication); (viii) with respect to any Bank Bonds, the dates provided in the applicable Liquidity Facility; and (ix) with respect to any District Bonds, the first Business Day of each calendar month.

“Interest Rate Period” includes any period during which Series 2021 A Bonds bear interest in a Flexible Index Mode or an Index Mode, and any Daily Rate Period, any Weekly Rate Period, any Short-Term Rate Period and any Long Period.

“Liquidity Facility” means the Initial Liquidity Facility and any other letter of credit and related reimbursement agreement, line of credit, standby bond purchase agreement or similar agreement which provides for the payment of the Purchase Price of the Series 2021 A Bonds tendered for purchase pursuant to the Paying Agent Agreement that Metropolitan delivers to the Paying Agent pursuant to the Paying Agent Agreement in connection with a change in the Interest Mode of the Series 2021 A Bonds to a Daily Mode, a Weekly Mode, a Short-Term Mode or a Long Mode or a change in the designation of the Series 2021 A Bonds in any such Interest Mode from Self-Liquidity Bonds to Liquidity Supported Bonds, including any renewal or extension of the term of each such agreement, as each such agreement may be amended, supplemented or otherwise modified from time to time, issued and delivered to the Paying Agent, and upon the issuance of any Alternate Liquidity Facility, such Alternate Liquidity Facility.

“Liquidity Provider” means the Initial Liquidity Provider and any other issuer or provider of any other Liquidity Facility.

“Liquidity Supported Bonds” means with respect to Series 2021 A Bonds bearing interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode, the Series 2021 A Bonds bearing interest in

such Interest Mode that Metropolitan designates as Liquidity Supported Bonds pursuant to the Paying Agent Agreement.

“Long Mode” means an Interest Mode in which the interest rate payable with respect to the Series 2021 A Bonds is adjusted at the intervals determined by the Remarketing Agent pursuant to the Paying Agent Agreement.

“Long Period” means each period during which a Long Rate for the Series 2021 A Bonds is in effect.

“Long Rate” means a rate of interest payable with respect to the Series 2021 A Bonds in a Long Mode, established by the Remarketing Agent in accordance with the Paying Agent Agreement.

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

“Mandatory Purchase Date” means any date upon which any Series 2021 A Bonds have been called for mandatory tender for purchase in accordance with the Paying Agent Agreement.

“Master Note” means, in connection with a change in the Interest Mode of the Series 2021 A Bonds to the Flexible Index Mode, the Municipal Commercial Paper — TECP Master Note dated the effective date of the change in Interest Mode to the Flexible Index Mode, executed by Metropolitan and authenticated by the Paying Agent, in substantially the form attached to the Paying Agent Agreement.

“Maximum Interest Rate” means: (a) with respect to Series 2021 A Bonds (other than Bank Bonds and District Bonds) the lesser of: (i) twelve percent (12%) per annum; or (ii) the maximum interest rate permitted by federal law and the laws of the State of California; (b) with respect to Bank Bonds, the maximum interest rate permitted under federal law and the laws of the State of California with respect to any obligation incurred by Metropolitan under any Liquidity Facility; *provided, however,* that in no event will the “Maximum Interest Rate” exceed eighteen percent (18%); and (c) with respect to District Bonds, the maximum interest rate permitted by federal law and the laws of the State of California.

“MMI Procedures” means, with respect to Series 2021 A Bonds while in the Flexible Index Mode, DTC’s Operational Arrangements and the Issuing/Paying Agent General Operating Procedures for Money Market Instruments as the same may be amended and modified from time to time.

“Monthly Report” has the meaning given such term in the Paying Agent Agreement.

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

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

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

“Prime Rate” means the rate per annum equal to the “prime rate” listed daily in the “Money Rate” section of The Wall Street Journal. If The Wall Street Journal is not published on any Business Day or if The Wall Street Journal does not publish a “prime rate” for any Business Day, then the “Prime Rate” for that Business Day will be the “prime rate” published on the display designated as page “PRIMBB” on the Bloomberg Financial Markets News Service until the next Business Day on which The Wall Street Journal

publishes the “prime rate.” If neither The Wall Street Journal nor the Bloomberg Financial Markets News Service publish a “prime rate” for a Business Day, then the “Prime Rate” will mean the “prime rate” most recently published in The Wall Street Journal or the Bloomberg Financial Markets News Service.

“Purchase Account” means the Account of the Purchase Fund so designated and established in the Paying Agent Agreement.

“Purchase Default Period” means, for Series 2021 A Bonds while in the Flexible Index Mode or the Index Mode, the period from and after the Scheduled Mandatory Tender Date on which a Flexible Index Mode Scheduled Mandatory Tender Failure or an Index Mode Scheduled Mandatory Tender Failure occurs, as the case may be, until the date next preceding the date on which the earlier of the following occurs: (a) the purchase by Metropolitan of all then-Outstanding Series 2021 A Bonds pursuant to the Paying Agent Agreement; and (b) the redemption of all then-Outstanding Series 2021 A Bonds pursuant to the Paying Agent Agreement.

“Purchase Default Period Purchase Date” has the meaning given such term in the Paying Agent Agreement.

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

“Purchase Fund” means each Fund so designated and established in the Paying Agent Agreement.

“Purchase Price” means, with respect to any Series 2021 A Bonds purchased pursuant to the Paying Agent Agreement, an amount equal to the principal amount of such Series 2021 A Bonds, plus accrued and unpaid interest to the purchase date (unless the purchase date is otherwise an Interest Payment Date, in which case the Purchase Price will not include accrued interest, which will be paid in the normal course). With respect to any Series 2021 A Bonds purchased during any Purchase Default Period, the Purchase Price will mean an amount equal to the principal amount of such Series 2021 A Bonds, plus accrued and unpaid interest to the Purchase Default Period Purchase Date (unless such Purchase Default Period Purchase Date is an Interest Payment Date, in which case the Purchase Price will not include accrued interest, which will be paid in the normal course).

“Rating Agency” means S&P (if then rating the Series 2021 A Bonds) or Fitch (if then rating the Series 2021 A Bonds).

“Record Date” means with respect to Series 2021 A Bonds bearing interest at a Weekly Rate, the Business Day immediately preceding each Interest Payment Date.

“Redemption Date” means the date fixed for redemption of any Series 2021 A Bonds prior to maturity pursuant to the Paying Agent Agreement.

“Redemption Price” means, with respect to any Series 2021 A Bond or portion thereof to be redeemed, a price equal to the principal amount of a Series 2021 A Bond or portion thereof, plus premium, if applicable.

“Remarketing Agent” means BofA Securities, Inc., or any successor appointed pursuant to the Paying Agent Agreement.

“Remarketing Agreement” means, initially, the Remarketing Agreement, dated as of June 1, 2021, by and between Metropolitan and the Remarketing Agent, relating to the Series 2021 A Bonds as it may be

amended, supplemented or otherwise modified from time to time, and, subsequently, any similar agreement between Metropolitan and any successor Remarketing Agent, as any such agreement may be amended, supplemented or otherwise modified from time to time.

“Remarketing Proceeds Account” means the Account of the Purchase Fund so designated and established in the Paying Agent Agreement.

“Representation Letter” means the Letter of Representations from Metropolitan to DTC with respect to its book-entry obligations, including the Series 2021 A Bonds.

“Resolutions” means, collectively, the Master Subordinate Resolution and the First Supplemental Subordinate Resolution.

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

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

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

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

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

“Series 2021 A Bonds” means the bonds issued under the Paying Agent Agreement and designated as “The Metropolitan Water District of Southern California Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A,” and includes Bank Bonds and District Bonds.

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, and its successors, and if such company will for any reason no longer perform the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by Metropolitan.

“Scheduled Mandatory Tender Date” means, for Series 2021 A Bonds while in the Flexible Index Mode or the Index Mode, and with respect to each Tender Period, the date determined by Metropolitan pursuant to the Paying Agent Agreement.

“Securities Depository” means The Depository Trust Company or any successor agency.

“Self-Liquidity Bonds” means with respect to Series 2021 A Bonds bearing interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode, the Series 2021 A Bonds bearing interest in such Interest Mode that Metropolitan designates as Self-Liquidity Bonds pursuant to the Paying Agent Agreement.

“Short-Term Mode” means an Interest Mode in which the interest rate payable with respect to the Series 2021 A Bonds is adjusted at the intervals determined by the Remarketing Agent pursuant to the Paying Agent Agreement.

“Short-Term Rate Period” means each period, comprised of Bond Interest Terms, during which Bond Interest Term Rates are in effect.

“SIFMA” means, as of any date, the per annum rate published or reported by Municipal Market Data on its SIFMA Municipal Swap Index most recently available, or if the SIFMA Municipal Swap Index is no longer published or reported, the rate per annum published or reported on the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or if neither the SIFMA Municipal Swap Index nor the S&P Weekly High Grade Index is published, a per annum rate equal to 60% of the yield of the three-month U.S. Treasury note as reported as of the end of each trading day.

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

“Special Mandatory Redemption Amount” means, with respect to special mandatory redemption during any Purchase Default Period pursuant to the Paying Agent Agreement, the aggregate principal amount of Series 2021 A Bonds Outstanding on the Scheduled Mandatory Tender Date on which such Purchase Default Period commenced.

“Special Mandatory Redemption Payments” means, with respect to Series 2021 A Bonds bearing interest in a Flexible Index Mode or an Index Mode, the amount required by the Paying Agent Agreement to be deposited by the Treasurer in the Bond Service Fund for the payment of Series 2021 A Bonds.

“Standard Call Protection Date” means: (a) with respect to Series 2021 A Bonds bearing interest in a Flexible Index Mode: (i) if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is one hundred eighty (180) days or less, the Tender Period Halfway Date; and (ii) if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is more than one hundred eighty (180) days, the date that is one hundred eighty (180) days before the Scheduled Mandatory Tender Date; and (b) with respect to Series 2021 A Bonds bearing interest in an Index Mode: (i) if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is one year or less, the Tender Period Halfway Date and (b) if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is more than one year, the date that is one hundred eighty (180) days before the Scheduled Mandatory Tender Date.

“State” means the State of California.

“Substitution Date” means the date on which an Alternate Liquidity Facility is substituted for the Liquidity Facility.

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

“Tender Period” means, with respect to Series 2021 A Bonds bearing interest in a Flexible Index Mode or an Index Mode, the period determined pursuant to the Paying Agent Agreement.

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

“Treasurer” means the Treasurer or the Assistant Treasurer of Metropolitan.

“Undelivered Bond” means any Series 2021 A Bond that has not been delivered by its Owner to the Paying Agent in the place, at the time or in the manner specified in the Paying Agent Agreement, in connection with a purchase of Series 2021 A Bonds pursuant to the Paying Agent Agreement.

“Weekly Mode” means an Interest Mode in which the interest rate payable with respect to the Series 2021 A Bonds is determined weekly by the Remarketing Agent pursuant to the Paying Agent Agreement.

“Weekly Rate” means a rate of interest payable with respect to Series 2021 A Bonds in a Weekly Mode, established by the Remarketing Agent in accordance with the Paying Agent Agreement.

“Weekly Rate Period” means each period during which a Weekly Rate for the Series 2021 A Bonds is in effect.

Appointment of Paying Agent. The Paying Agent has been appointed and engaged to act as agent to the Fiscal Agent for the purpose of authentication and transfer of the Series 2021 A Bonds in accordance with the Master Subordinate Resolution, and to perform certain other functions all as provided in the Paying Agent Agreement. By executing and delivering the Paying Agent Agreement, the Paying Agent accepts the duties and obligations provided in the Paying Agent Agreement, but only upon the terms and conditions set forth in the Paying Agent Agreement.

New York City Time. Except as otherwise provided in the Paying Agent Agreement, whenever any time of day is set forth in the Paying Agent Agreement, it is understood and agreed that such time will mean New York City time.

The Series 2021 A Bonds

Interest Rates.

Election of Flexible Index Mode or Index Mode. Metropolitan, by written direction to the other Notice Parties, may elect, subject to the provisions of the Paying Agent Agreement, that the Series 2021 A Bonds will bear interest at an Index Tender Rate in either the Flexible Index Mode or the Index Mode. Such direction of Metropolitan will specify:

- (i) The election of either the Flexible Index Mode or the Index Mode;
- (ii) the effective date of the change in Interest Mode to the Flexible Index Mode or the Index Mode, as the case may be, which date will be a Business Day not earlier than the eighth (8th) day following the date such direction is given, and: (x) in the case of a change from a Long Mode, the day immediately following the last day of the then-current Long Period or a day on which the Series 2021 A Bonds would otherwise be subject to optional redemption pursuant to the Paying Agent Agreement if such change did not occur; or (y) in the case of a change from the Flexible Index Mode to the Index Mode or from the Index Mode to a Flexible Index Mode, a Business Day occurring on or after the Call Protection Date of the Tender Period then in effect for the Series 2021 A Bonds;
- (iii) the related Mandatory Purchase Date; and
- (iv) the Business Day that Metropolitan elects to be the Scheduled Mandatory Tender Date of the Tender Period commencing on the effective date of the change in Interest Mode to a Flexible Index Mode or an Index Mode (provided, that the Scheduled Mandatory Tender Date will not be earlier than three (3) months after the commencement of the Tender Period).

With respect to any Tender Period commencing on the effective date of a change in Interest Mode to the Flexible Interest Mode or the Index Mode or any Tender Period commencing on the effective date of a Flexible Index Mode or an Index Mode immediately following a Purchase Default Period, the Call Protection Date for such Tender Period will be the Standard Call Protection Date. In addition, the direction of Metropolitan will be accompanied by a form of notice to be given to the Owners of the Series 2021 A Bonds by the Paying Agent as provided in the Paying Agent Agreement. During the period beginning with the first day on which the Series 2021 A Bonds bear interest in a Flexible Index Mode or an Index Mode and ending on the effective date of a change to an Interest Mode other than the Flexible Index Mode or the Index Mode, the interest rate borne by the Series 2021 A Bonds will be an Index Tender Rate.

If the Series 2021 A Bonds in the Flexible Index Mode will be supported by a commercial paper program, the following additional conditions must be satisfied before a conversion to a Flexible Index Mode may become effective:

- (A) Metropolitan must engage, at its expense, a commercial paper issuing and paying agent, reasonably acceptable to the Paying Agent, having access to DTC's MMI Procedures and otherwise eligible to serve as an issuing and paying agent under DTC's policies and procedures for the issuance and payment of commercial paper;
- (B) The Remarketing Agent must arrange for the execution and delivery to DTC of the Master Note to make the Series 2021 A Bonds in the Flexible Interest Mode eligible for DTC's book entry system, and for the provision of any needed CUSIP numbers;
- (C) Metropolitan will take all other action that is required to comply with DTC requirements that are applicable to the issuance and payment of the Series 2021 A Bonds while in the Flexible Index Mode; and
- (D) Metropolitan will enter into any amendment of the Paying Agent Agreement that is required to comply with DTC's or any Rating Agency's requirements concerning the issuance and payment of the Series 2021 A Bonds in the Flexible Index Mode.

Notice of Election of Flexible Index Mode or Index Mode. The Paying Agent will give notice, together with the notice required by the Paying Agent Agreement, by Mail to the Owners of the Series 2021 A Bonds (or, if the Series 2021 A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), of a change in Interest Mode to the Flexible Index Mode or the Index Mode not less than seven (7) days prior to the effective date of the change to the Flexible Index Mode or the Index Mode, as the case may be. Such notice will state: (i) that the interest rate on the Series 2021 A Bonds will be changed to an Index Tender Rate and that the Series 2021 A Bonds will bear interest in the Flexible Index Mode or the Index Mode (as the case may be), unless, in the case of a change from a Long Rate, Bond Counsel fails to deliver to the Notice Parties a Favorable Opinion of Bond Counsel as to such change on the effective date of such change, in which case the Series 2021 A Bonds will continue to bear interest at the Long Rate in effect immediately prior to such proposed change in Interest Mode; (ii) the effective date of the change to the Flexible Index Mode or the Index Mode, as the case may be; (iii) that the Series 2021 A Bonds are subject to mandatory tender for purchase on the effective date, setting forth the applicable Purchase Price; and (iv) if the Series 2021 A Bonds are no longer in book-entry form, information with respect to the required delivery of bond certificates and payment of the Purchase Price under the Paying Agent Agreement.

Election of Daily Mode. Metropolitan, by written direction to the other Notice Parties, may elect, subject to the provisions of the Paying Agent Agreement, to change the Interest Mode of the Series 2021 A Bonds to the Daily Mode. Such direction of Metropolitan will specify: (i) the effective date of such change to a Daily Mode, which will be a Business Day not earlier than the eighth (8th) day following the date such direction is given, and: (x) in the case of a change from a Long Mode, the day immediately following the last day of the then-current Long Period or a day on which the Series 2021 A Bonds would otherwise be subject to optional redemption pursuant to the Paying Agent Agreement if such change did not occur; or (y) in the case of a change from a Flexible Index Mode or an Index Mode, a Business Day occurring on or after the Call Protection Date of the Tender Period then in effect; (ii) whether, upon the change to the Daily Mode, the Series 2021 A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds; and (iii) if applicable, the Mandatory Purchase Date. In addition, the direction of Metropolitan will be accompanied by a form of notice to be given to the Owners of the Series 2021 A Bonds by the Paying Agent as provided in the Paying Agent Agreement. During the period beginning with the first day on which the Series 2021 A Bonds bear interest in the Daily Mode and ending on the effective date of a change to an Interest Mode other than the Daily Mode, the interest rate borne by the Series 2021 A Bonds will be a Daily Rate.

Notice of Election of Daily Mode. The Paying Agent will give notice, together with the notice required by the Paying Agent Agreement, by Mail to the Owners of the Series 2021 A Bonds (or, if the Series 2021 A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), of a change in Interest Mode to a Daily Mode not less than seven (7) days prior to the effective date of the change to the Daily Mode. Such notice will state: (i) that the interest rate on the Series 2021 A Bonds will be changed to a Daily Rate unless, in the case of a change from a Long Rate, Bond Counsel fails to deliver to the Notice Parties a Favorable Opinion of Bond Counsel as to such change on the effective date of such change, in which case the Series 2021 A Bonds will continue to bear interest at the Long Rate in effect immediately prior to such proposed change in Interest Mode; (ii) the effective date of the change to the Daily Mode; (iii) whether, upon the change to the Daily Mode, the Series 2021 A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds, and if the Series 2021 A Bonds will be Liquidity Supported Bonds following the change to the Daily Mode, the name of the Liquidity Provider; (iv) if applicable, that the Series 2021 A Bonds are subject to mandatory tender for purchase on the effective date, setting forth the applicable Purchase Price; and (v) if the Series 2021 A Bonds are no longer in book-entry form, information with respect to the required delivery of bond certificates and payment of the Purchase Price under the Paying Agent Agreement.

Election of Short-Term Mode. Metropolitan, by written direction to the other Notice Parties, may elect, subject to the provisions of the Paying Agent Agreement, to change the Interest Mode of the Series 2021 A Bonds to the Short-Term Mode. Such direction of Metropolitan will specify: (i) the effective date of the change to a Short-Term Mode, which will be a Business Day not earlier than the eighth (8th) day following the date such direction is given; and (x) in the case of a change from a Long Mode, the day immediately following the last day of the then-current Long Period or a day on which the Series 2021 A Bonds would otherwise be subject to optional redemption pursuant to the Paying Agent Agreement if such change did not occur; or (y) in the case of a change from a Flexible Index Mode or an Index Mode, a Business Day occurring on or after the Call Protection Date of the Tender Period then in effect; (ii) whether, upon the change to the Short-Term Mode, the Series 2021 A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds; and (iii) the Mandatory Purchase Date. In addition, the direction of Metropolitan will be accompanied by a form of the notice to be given by the Paying Agent to the Owners of the Series 2021 A Bonds as provided in the Paying Agent Agreement. During the period beginning with the first day on which the Series 2021 A Bonds bear interest in the Short-Term Mode and ending on the effective date of a change to an Interest Mode other than the Short-Term Mode, each Series 2021 A Bond will bear interest at a Bond Interest Term Rate during each Bond Interest Term for such Series 2021 A Bond.

Notice of Election of Short-Term Mode. The Paying Agent will give notice, together with the notice required by the Paying Agent Agreement, by Mail to the Owners of the Series 2021 A Bonds (or, if the Series 2021 A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), of a change in Interest Mode to the Short-Term Mode not less than seven (7) days prior to the effective date of the change to the Short-Term Mode. Such notice will state: (i) that the interest rate on the Series 2021 A Bonds will be changed to Bond Interest Term Rates, unless in the case of a change from a Long Rate, Bond Counsel fails to deliver to the Notice Parties a Favorable Opinion of Bond Counsel as to such change on the effective date of such change, in which case the Series 2021 A Bonds will continue to bear interest at the Long Rate in effect immediately prior to such proposed change in Interest Mode; (ii) that during such Short-Term Rate Period, each Series 2021 A Bond will have one or more consecutive Bond Interest Terms during each of which such Series 2021 A Bond will bear a Bond Interest Term Rate; (iii) the effective date of the change to such Short-Term Rate Period; (iv) whether, upon the change to the Short-Term Mode, the Series 2021 A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds, and if the Series 2021 A Bonds will be Liquidity Supported Bonds following the change to the Short-Term Mode, the name of the Liquidity Provider; (v) that the Series 2021 A Bonds are subject to mandatory tender for purchase on the effective date of such Short-Term Rate Period, setting forth the applicable Purchase Price; and (vi) if the Series 2021 A Bonds are no longer in book-entry form, information with respect to the required delivery of bond certificates and payment of the Purchase Price under the Paying Agent Agreement of the Paying Agent Agreement.

Election of or Continuation of Long Mode. Metropolitan, by written direction to the other Notice Parties, may elect, subject to the provisions of the Paying Agent Agreement, to change the Interest Mode of the Series 2021 A Bonds to the Long Mode, or to continue the Long Mode and to commence a new Long Period for the Series 2021 A Bonds. Metropolitan may not change the Interest Mode of the Series 2021 A Bonds to a Long Mode or elect to continue a Long Mode unless, as of the effective date of the change or the continuation, the Series 2021 A Bonds will be Self-Liquidity Bonds or, if the Series 2021 A Bonds will be Liquidity Supported Bonds, a Liquidity Facility is in effect for the Series 2021 A Bonds in a stated amount sufficient to pay the principal amount of the Series 2021 A Bonds plus an amount sufficient to pay at least one hundred eighty-four (184) days of interest coverage at the Long Rate then in effect. The direction of Metropolitan: (A) will specify the duration of the Long Period (which will be one year or any integral multiple thereof (or as near thereto as reasonably practicable to ensure that the last day of the Long Period complies with clause (C) below)) during which the Series 2021 A Bonds will bear interest at a Long Rate; (B) will specify the effective date of such Long Period, which date will be a Business Day not earlier than the eighth (8th) day following the date such direction is given; and (x) in the case of a

continuation of the Long Mode with the commencement of a new Long Period, the day immediately following the last day of the then-current Long Period or a day on which the Series 2021 A Bonds would otherwise be subject to optional redemption pursuant to the Paying Agent Agreement if such change did not occur; or (y) in the case of a change from a Flexible Index Mode or an Index Mode, a Business Day occurring on or after the Call Protection Date of the Tender Period then in effect; (C) will specify the last day of such Long Period (which last day will be either the day prior to the maturity date, or a day which both immediately precedes a Business Day and is at least three hundred sixty-five (365) days after the effective date thereof); (D) will specify whether, upon the change to the Long Mode or the commencement of the new Long Period, the Series 2021 A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds; and (E) the Mandatory Purchase Date. Such direction of Metropolitan will be accompanied by a form of the notice to be given by the Paying Agent to the Owners as provided in the Paying Agent Agreement.

Notice of Election to or Continuation of Long Mode. The Paying Agent will give notice, together with the notice required by the Paying Agent Agreement, by Mail to the Owners of the Series 2021 A Bonds (or, if the Series 2021 A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), of a change in Interest Mode to a (or the establishment of another) Long Period not less than seven (7) days prior to the effective date of the change to the Long Mode (or establishment of another Long Period). Such notice will state: (i) that the interest rate on the Series 2021 A Bonds will be changed to, or continue to bear interest at, a Long Rate unless Bond Counsel fails to deliver to the Notice Parties a Favorable Opinion of Bond Counsel as to such change in the Interest Mode or establishment of a new Long Period, in which case: (a) the Series 2021 A Bonds if being changed from a Flexible Index Mode, an Index Mode, a Daily Mode, a Weekly Mode or a Short-Term Mode will continue to bear interest at the Index Tender Rate, Daily Rate, Weekly Rate or Bond Interest Term Rate as in effect immediately prior to such change in Interest Mode; and (b) the Series 2021 A Bonds if already bearing interest at a Long Rate will continue to bear interest at the Long Rate as in effect immediately prior to such proposed establishment of a new Long Period; (ii) the effective date of the change to the Long Period and the last day of such Long Period; (iii) whether, upon the change to the Long Mode, the Series 2021 A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds, and if the Series 2021 A Bonds will be Liquidity Supported Bonds following the change to the Long Mode, the name of the Liquidity Provider; (iv) that the Series 2021 A Bonds are subject to mandatory tender for purchase on such effective date and the Purchase Price applicable thereto; and (v) if the Series 2021 A Bonds are no longer in book-entry form, information with respect to the required delivery of bond certificates and payment of the Purchase Price under the Paying Agent Agreement of the Paying Agent Agreement.

Fixed Interest Rate. On and after the Fixed Rate Date, the Series 2021 A Bonds will bear interest at the Fixed Interest Rate. Not later than the Business Day prior to the Fixed Rate Date (or if such day is not a Business Day, then on the immediately preceding Business Day), the Remarketing Agent will determine the interest rate which in its judgment, having due regard for prevailing financial market conditions, is the interest rate, but not in excess of the interest rate, which would enable the Remarketing Agent to sell all Series 2021 A Bonds on the Fixed Rate Date with a Fixed Interest Rate until maturity at 100% of the principal amount thereof plus accrued interest, if any, with respect thereto, plus a premium; *provided, however,* that if Metropolitan exercises its option pursuant to the Paying Agent Agreement to have Series 2021 A Bonds remarketed on the Fixed Rate Date at a discount, the Remarketing Agent will establish the Fixed Interest Rate taking into account any such discount specified by Metropolitan. The Remarketing Agent will promptly give telephonic notice to Metropolitan and the Fiscal Agent and Electronic Notice to the Paying Agent of the Fixed Interest Rate.

Bank Bonds. Any Bank Bonds will bear interest at the Bank Bond Rate for the period from the date that the Liquidity Provider purchases such Bank Bonds and continuing until the Bank Bonds have been remarketed or the Liquidity Provider has otherwise elected not to sell the Bank Bonds pursuant to the

Paying Agent Agreement. Notwithstanding anything in the Paying Agent Agreement to the contrary, Metropolitan will pay the Liquidity Provider interest on Bank Bonds by wire transfer, on the date on which such interest is due, in accordance with the wire transfer instructions that the Liquidity Provider provides Metropolitan. The Liquidity Provider may sell, assign or dispose of Bank Bonds as more fully provided in the Liquidity Facility. The Paying Agent will note on the Bank Bonds and the Bond Register the requirement of such authorization and the applicability of the provisions of the Paying Agent Agreement to subsequent Owners of the Bank Bonds. Anything in the Paying Agent Agreement to the contrary notwithstanding, Metropolitan will pay principal of and interest on Bank Bonds in the manner, in the amounts and on the dates set forth in the applicable Liquidity Facility.

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

Metropolitan will not sell, assign or otherwise dispose of any District Bonds other than through a remarketing of Metropolitan Bonds pursuant to the Paying Agent Agreement; *provided, however,* that Metropolitan will be permitted to cancel any District Bonds at any time by surrendering such District Bonds to the Fiscal Agent for cancellation pursuant to the terms of the Master Subordinate Resolution. Metropolitan Bonds and the Bond Register maintained by the Paying Agent will be noted indicating the requirement of such prohibition.

Method of Notice of Election to Change Interest Mode. If Metropolitan will elect to change the Interest Mode on the Series 2021 A Bonds to a Flexible Index Mode, an Index Mode, a Daily Mode, a Weekly Mode, a Short-Term Mode or a Long Mode as provided in the Paying Agent Agreement, then the written direction furnished by Metropolitan to the other Notice Parties as required by the Paying Agent Agreement will be made by registered or certified mail or by Electronic Notice. Any such direction of Metropolitan will specify whether the Series 2021 A Bonds are to bear interest at an Index Tender Rate (and in such case, whether in the Flexible Index Mode or the Index Mode), a Daily Rate, a Weekly Rate, Bond Interest Term Rates or a Long Rate and will be accompanied by the form of the notice required to be given by the Paying Agent pursuant to the Paying Agent Agreement. Notwithstanding anything in the Paying Agent Agreement to the contrary, following the conversion of the Series 2021 A Bonds to a Fixed Interest Rate, Metropolitan may not elect to adjust the interest rate on the Series 2021 A Bonds from a Fixed Interest Rate to any other Interest Mode.

Accrual of Interest. Except as provided in the Paying Agent Agreement with respect to Bank Bonds and District Bonds, each Series 2021 A Bond will bear interest from and including the Interest Accrual Date immediately preceding the date of authentication thereof, or, if such date of authentication will be an Interest Accrual Date to which interest on the Series 2021 A Bonds has been paid in full or duly provided for or the date of initial authentication of the Series 2021 A Bonds, from such date of authentication; *provided, however,* that if, as shown by the records of the Paying Agent, interest on the Series 2021 A Bonds will be in default, Series 2021 A Bonds issued in exchange for their respective Series 2021 A Bonds surrendered for registration of transfer or exchange will bear interest from the date to which interest has been paid in full on the Series 2021 A Bonds or, if no interest has been paid on the Series 2021 A Bonds, from the date of the first authentication of Series 2021 A Bonds under the Paying Agent Agreement. Interest

on the Series 2021 A Bonds will be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date or otherwise as provided in the Paying Agent Agreement and ending on the day immediately preceding such Interest Payment Date. In any event, interest on the Series 2021 A Bonds will be payable for the final Interest Rate Period to the date on which the Series 2021 A Bonds will have been paid in full. Interest will be computed, in the case of Series 2021 A Bonds bearing interest at the Fixed Interest Rate or in the Long Mode, on the basis of a 360-day year consisting of twelve 30-day months, and in the case of Series 2021 A Bonds bearing interest in any other Interest Mode, on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed.

Conversion to Fixed Interest Rate. If the Remarketing Agent fails, refuses or is unable to determine the Fixed Interest Rate prior to the Fixed Rate Date, then the Series 2021 A Bonds will bear interest in the Interest Mode in effect prior to the Fixed Rate Date until such time as Metropolitan elects a new Interest Mode as provided in the Paying Agent Agreement or again exercises its option to convert to a Fixed Interest Rate. If, at the direction of Metropolitan, the Remarketing Agent resumes determination of the Fixed Interest Rate pursuant to the Paying Agent Agreement, the foregoing provisions will apply as if there had been no prior invalidation or failure by the Remarketing Agent to determine the Fixed Interest Rate.

Notice of Conversion to Fixed Interest Rate. If Metropolitan exercises its option to convert the Series 2021 A Bonds to the Fixed Interest Rate, the Paying Agent will give notice of such conversion to the Rating Agencies, any Liquidity Provider, the Remarketing Agent and, as required by the Paying Agent Agreement, by Mail to the Owners of the Series 2021 A Bonds (or, if the Series 2021 A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not less than seven (7) days prior to the Fixed Rate Date. Such notice will state: (i) that the interest rate with respect to the Series 2021 A Bonds will be converted to the Fixed Interest Rate; (ii) the Fixed Rate Date; (iii) the date the Fixed Interest Rate is to be established; (iv) that interest on the Series 2021 A Bonds will be payable on each January 1 and July 1 after the Fixed Rate Date; (v) that subsequent to the Fixed Rate Date, the Owners will no longer have the right to deliver the Series 2021 A Bonds to the Paying Agent for purchase; (vi) that all Outstanding Series 2021 A Bonds will be purchased on the Fixed Rate Date, setting forth the applicable Purchase Price; and (vii) that on and after the Fixed Rate Date, the Owners of the Series 2021 A Bonds immediately preceding the Fixed Rate Date will be deemed to have tendered their Series 2021 A Bonds as of the Fixed Rate Date to the Paying Agent. From and after the Fixed Rate Date, such Owners will not be entitled to any payment (including any interest to accrue from and after the Fixed Rate Date) other than the Purchase Price for such Series 2021 A Bonds which will be an amount equal to the principal amount thereof plus accrued interest, if any, with respect thereto, calculated as of the Fixed Rate Date. From and after the Fixed Rate Date, such Series 2021 A Bonds will no longer otherwise be entitled to the specified benefits of the Paying Agent Agreement as further provided therein. The Series 2021 A Bonds will be purchased on the Fixed Rate Date in accordance with and from the sources of funds specified in the Paying Agent Agreement.

Interest Mode Following the Termination of a Purchase Default Period. Upon the termination of a Purchase Default Period, Metropolitan may deliver the Series 2021 A Bonds to new Owners in any Interest Mode that Metropolitan elects (including the Flexible Index Mode and the Index Mode) upon delivery by Metropolitan to the Paying Agent of a Favorable Opinion of Bond Counsel. Metropolitan will evidence its election by delivering to the other Notice Parties the written direction described in the Paying Agent Agreement, which direction will be effective immediately upon delivery without regard to any notice requirement contained therein.

Conversion of Series 2021 A Bonds to Fixed Interest Rate following the Termination of a Purchase Default Period. Upon the termination of a Purchase Default Period, Metropolitan may elect to deliver the Series 2021 A Bonds to new Owners such that they bear interest at a Fixed Interest Rate upon delivery by Metropolitan to the Paying Agent of a Favorable Opinion of Bond Counsel. Metropolitan will evidence its election by delivering to the other Notice Parties the written direction described in the Paying Agent

Agreement, which direction will be effective immediately upon delivery without regard to any notice requirement contained therein.

Book-Entry Bonds

Book-Entry System; Limited Obligation.

(a) Except as otherwise provided in the Paying Agent Agreement, the Series 2021 A Bonds will be registered in the form of one fully registered bond in the name of the Securities Depository or its nominee and ownership thereof will be maintained in book-entry form by the Securities Depository for the account of the Participants thereof. Initially, the Series 2021 A Bonds will be registered in the name of Cede & Co., as the nominee of the Securities Depository, and payment of principal and interest for any Series 2021 A Bonds registered in the name of Cede & Co. will be made as provided in the Representation Letter. Except as provided in the Paying Agent Agreement, the Series 2021 A Bonds may be transferred, in whole but not in part, only to the Securities Depository or a nominee of the Securities Depository, or to a successor Securities Depository selected by Metropolitan or to a nominee of such successor Securities Depository. Each global bond will bear a legend substantially to the following effect: "Unless this Bond is presented by an authorized representative of the Securities Depository (as defined in the Master Subordinate Resolution) to the Paying Agent for registration of transfer, exchange, or payment, and any Series 2021 A 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 of the Paying Agent Agreement for value or otherwise by or to any person is wrongful inasmuch as the registered owner of the Paying Agent Agreement, Cede & Co., has an interest in the Paying Agent Agreement."

(b) Metropolitan and the Paying Agent have no responsibility or obligation with respect to:

(i) the accuracy of the records of the Securities Depository, its nominee or any Participant with respect to any beneficial ownership interest in the Series 2021 A Bonds;

(ii) the delivery to any Participant, Beneficial Owner or other Person, other than the Securities Depository, of any notice with respect to the Series 2021 A Bonds;

(ii) the payment to any Participant, Beneficial Owner or other Person, other than the Securities Depository, of any amount with respect to the principal of, premium, if any, or interest on, the Series 2021 A Bonds;

(iv) any consent given by the Securities Depository or its nominee as Owner; or

(v) the selection by the Securities Depository or any Participant of any Beneficial Owners to receive payment if the Series 2021 A Bonds are redeemed in part.

So long as the certificates for the Series 2021 A Bonds issued pursuant to the Resolutions, as supplemented, including by, among other things, the Paying Agent Agreement, are not issued pursuant to paragraph (c) below, Metropolitan and the Paying Agent may treat the Securities Depository as, and deem the Securities Depository to be, the absolute Owner of such Series 2021 A Bonds for all purposes whatsoever, including without limitation: (i) the payment of principal, premium, if any, and interest on or Purchase Price of such Series 2021 A Bonds; (ii) giving notices of redemption or mandatory tenders and other matters with respect to such Series 2021 A Bonds; and (iii) registering transfers with respect to such Series 2021 A Bonds.

(c) If at any time the Securities Depository notifies Metropolitan that it is unwilling or unable to continue as Securities Depository with respect to the Series 2021 A Bonds or if at any time the Securities Depository will no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and a successor Securities Depository is not appointed by Metropolitan within ninety (90) days after Metropolitan receives notice or becomes aware of such condition, as the case may be, paragraphs (a) and (b) above will no longer be applicable and Metropolitan will execute and the Paying Agent will authenticate and deliver certificates representing the Series 2021 A Bonds as provided below. In addition, Metropolitan may determine at any time that the Series 2021 A Bonds will no longer be represented by global certificates and that the provisions of paragraphs (a) and (b) above will no longer apply to such Series 2021 A Bonds. In any such event Metropolitan will execute and the Paying Agent will authenticate and deliver certificates representing the Series 2021 A Bonds as provided below. Certificates for the Series 2021 A Bonds issued in exchange for a global certificate pursuant to this subsection (c) will be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Participants or otherwise, will instruct Metropolitan and the Paying Agent.

(d) Notwithstanding any other provision of the Paying Agent Agreement to the contrary, so long as any Series 2021 A Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal or Redemption Price of and interest on or the Purchase Price of such Series 2021 A Bonds and all notices with respect to such Series 2021 A Bonds will be made and given, respectively, to DTC as provided in the Representation Letter.

(e) In connection with any notice or other communication to be provided to Owners of the Series 2021 A Bonds pursuant to the Paying Agent Agreement by Metropolitan or the Paying Agent with respect to any consent or other action to be taken by Owners of Series 2021 A Bonds, Metropolitan or the Paying Agent, as the case may be, will establish a record date for such consent or other action and give DTC notice of such record date not less than fifteen (15) calendar days in advance of such record date to the extent possible. Notice to DTC will be given only when DTC is the Owner of the Series 2021 A Bonds.

(f) If Metropolitan purchases, or causes the Paying Agent to purchase, any of the Series 2021 A Bonds, such purchase of the Series 2021 A Bonds will be deemed to have occurred upon Metropolitan's purchase of beneficial ownership interests in the Series 2021 A Bonds from a Participant. If Metropolitan so directs DTC in writing, upon receipt by DTC of notice from Metropolitan and a Participant that a purchase of beneficial ownership interests in the Series 2021 A Bonds has been made by Metropolitan from such Participant, DTC will surrender to the Paying Agent such Series 2021 A Bonds referenced in such notice and, if the principal amount referenced in such notice is less than the principal amount of the Series 2021 A Bonds so surrendered, the Paying Agent will authenticate and deliver to DTC, in exchange for the Series 2021 A Bonds so surrendered, a new Series 2021 A Bond or Series 2021 A Bonds, in Authorized Denominations and in a principal amount equal to the difference between: (i) the principal amount of the Series 2021 A Bonds so surrendered; and (ii) the principal amount referenced in such notice; *provided, however,* that the foregoing provisions will not apply to any District Bonds and Metropolitan's ownership and disposition of District Bonds will be governed by the Paying Agent Agreement.

(g) Notwithstanding any provision in the Paying Agent Agreement to the contrary, Metropolitan and the Paying Agent may agree to allow DTC, or its nominee, Cede & Co., to make a notation on any Series 2021 A Bond redeemed or defeased in part to reflect, for informational purposes only, the principal amount and date of any such redemption or defeasance.

(h) Notwithstanding any provision in the Paying Agent Agreement to the contrary, so long as the Series 2021 A Bonds are subject to a system of book-entry transfers pursuant to the Paying Agent Agreement, any requirement for the delivery of the Series 2021 A Bonds to the Paying Agent in connection with a tender pursuant to the Paying Agent Agreement will be deemed satisfied upon the transfer, on the

registration books of DTC, of the beneficial ownership interests in such Series 2021 A Bonds tendered for purchase to the account of the Paying Agent, or a Participant acting on behalf of or at the direction of such Paying Agent.

(i) Notwithstanding anything in the Paying Agent Agreement to the contrary, in no event will DTC be permitted to substitute a new nominee in place of Cede & Co. while the Series 2021 A Bonds and a Master Note are outstanding unless DTC substitutes the same nominee in place of Cede & Co. with respect to both the Series 2021 A Bonds and such Master Note. Neither the Series 2021 A Bonds nor any Master Note is subject to transfer by Cede & Co. unless the Series 2021 A Bonds and such Master Note are assigned together to the same transferee.

Transfers Outside Book-Entry System. If at any time ownership of the Series 2021 A Bonds is no longer maintained in book-entry form, the transfer and exchange of the Series 2021 A Bonds will be governed by the provisions of the Resolutions.

Bond Register. The Paying Agent, as agent of the Fiscal Agent with respect to the Series 2021 A Bonds, will keep or cause to be kept at its Corporate Trust Office sufficient books for the registration of, and registration of transfer of, the Series 2021 A Bonds which books will at all times during regular business hours be open to inspection by Metropolitan upon prior reasonable notice. Upon presentation for registration of transfer, the Paying Agent will, as provided in the Resolutions and under such reasonable regulations as it may prescribe, subject to the provisions of the Resolutions and the Paying Agent Agreement, register or register the transfer of the Series 2021 A Bonds, or cause the same to be registered or cause the registration of the same to be transferred, on such books.

Redemption of Series 2021 A Bonds

Redemption of Bank Bonds. Bank Bonds will be subject to optional and mandatory redemption by Metropolitan on the dates, at the times, in the amounts and in the manner as provided in the applicable Liquidity Facility, if any.

Partial Redemption of Series 2021 A Bonds. Upon surrender of any Series 2021 A Bond to be redeemed in part only, the Paying Agent will issue to the Owner thereof a new bond or bonds representing the unredeemed principal amount of such Series 2021 A Bond surrendered.

Remarketing Agent; Paying Agent

Remarketing Agent for Series 2021 A Bonds; Qualifications; Resignation and Removal.

(a) The initial Remarketing Agent for the Series 2021 A Bonds will be BofA Securities, Inc., with its principal office at One Bryant Park, 9th Floor, New York, New York 10036, Attention: Municipal Markets Department. The Remarketing Agent will perform its duties and obligations as provided in the Remarketing Agreement. Metropolitan will appoint any successor Remarketing Agent for the Series 2021 A Bonds subject to the conditions set forth in the Paying Agent Agreement. Each successor Remarketing Agent will designate its principal office and signify its acceptance of the duties and obligations imposed upon it under the Paying Agent Agreement by a written instrument of acceptance delivered to Metropolitan (which acceptance may be included in the Remarketing Agreement) under which the Remarketing Agent will agree, particularly, to keep such books and records as will be consistent with prudent industry practice and to make such books and records available for inspection by Metropolitan at all reasonable times.

(b) The Remarketing Agent will be a member of the Financial Industry Regulatory Authority having a combined capital stock, surplus and undivided profits of at least \$100,000,000 and authorized by

law to perform all the duties imposed upon it by the Paying Agent Agreement. The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Paying Agent Agreement by giving notice to Metropolitan, the Fiscal Agent, the Paying Agent and any Liquidity Provider. Such resignation will take effect on the sixtieth (60th) day after the receipt by Metropolitan of the notice of resignation. Notwithstanding the foregoing, the Remarketing Agent may not resign or be discharged of the duties and obligations created by the Paying Agent Agreement on any date that is less than thirty (30) days before a Scheduled Mandatory Tender Date. The Remarketing Agent may be removed for any reason by Metropolitan upon thirty (30) days' notice to the Remarketing Agent and the other Notice Parties; *provided, however*, if the Remarketing Agent is in default under the Remarketing Agreement, Metropolitan may immediately remove the Remarketing Agent at any time by written notice given by Metropolitan and delivered to the Remarketing Agent and the other Notice Parties.

Paying Agent for Series 2021 A Bonds; Qualifications of Paying Agent.

(a) The initial Paying Agent for the Series 2021 A Bonds will be Wells Fargo Bank, National Association, through its Corporate Trust Office at 333 S. Grand Avenue, Fifth Floor, Suite 5A, Los Angeles, California 90071. Metropolitan will appoint any successor Paying Agent for the Series 2021 A Bonds, subject to the conditions set forth in the Paying Agent Agreement. Each successor Paying Agent will designate its Corporate Trust Office(s) for delivery of notices and delivery of Series 2021 A Bonds and signify its acceptance of the duties and obligations imposed upon it under the Paying Agent Agreement by a written instrument of acceptance delivered to the Fiscal Agent, Metropolitan, the Liquidity Provider, if any, and the Remarketing Agent. By acceptance of its appointment under the Paying Agent Agreement, the Paying Agent agrees:

(i) to hold all Series 2021 A Bonds delivered to it pursuant to the Paying Agent Agreement, as agent and bailee of, and in escrow for the benefit of, the respective Owners which will have so delivered such Series 2021 A Bonds until moneys representing the Purchase Price of such Series 2021 A Bonds will have been delivered to or for the account of or to the order of such Owners;

(ii) if Series 2021 A Bonds bear interest in a Flexible Index Mode or an Index Mode, to perform the actions set forth in or contemplated by the Paying Agent Agreement to be performed by it;

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

(iv) to hold all moneys (without investment or commingling thereof) delivered to it under the Paying Agent Agreement in the Purchase Fund for the purchase of the Series 2021 A Bonds pursuant to the Paying Agent Agreement, as agent and bailee of, and in escrow for the benefit of, the person or entity which will have so delivered such moneys until the Series 2021 A Bonds purchased with such moneys will have been delivered to or for the account of such person or entity;

(v) to hold all moneys that any Liquidity Provider delivers to it pursuant to the Paying Agent Agreement and that Metropolitan delivers to it pursuant to the Paying Agent Agreement for the purchase of Series 2021 A Bonds pursuant to the Paying Agent Agreement, as agent and bailee of, and in escrow for the benefit of, the Owners or former Owners who will tender Series 2021 A Bonds to it for purchase until the Series 2021 A Bonds purchased with such moneys will have been delivered to or for the account of the Liquidity Provider or Metropolitan, as applicable;

(vi) to establish and maintain a separate segregated trust fund designated as the “Redemption Fund” to hold and invest moneys for the redemption of the Series 2021 A Bonds pursuant to the Paying Agent Agreement until such time as it has been discharged from its duties as Paying Agent under the Paying Agent Agreement;

(vii) to establish and maintain such additional funds and accounts as it may be directed by Metropolitan to carry out its duties and responsibilities under the Paying Agent Agreement, or as it may deem appropriate;

(viii) to hold all Series 2021 A Bonds registered in the name of the new Owners thereof for delivery to the Remarketing Agent; and

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

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

(b) The Paying Agent will be a banking association or corporation with trust powers duly organized under the laws of the United States of America or any state or territory thereof, and authorized by law to perform all the duties imposed upon it by the Paying Agent Agreement, having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and will be subject to supervision or examination by a federal or State banking authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Paying Agent Agreement, the combined capital and surplus of such bank, banking association or trust company will be deemed to be its combined capital and surplus set forth in its most recent report of condition so published. Notwithstanding the foregoing, a bank, banking association or trust company which does not have a combined capital and surplus of at least \$50,000,000 may become a Paying Agent under the Paying Agent Agreement if its obligations under the Paying Agent Agreement are guaranteed by an affiliate which meets the qualifications of a Paying Agent under the Paying Agent Agreement and such guaranty is acceptable in form and substance to Metropolitan.

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

Removal of Paying Agent. Metropolitan may, so long as no Event of Default under the Paying Agent Agreement or an “Event of Default” under the Master Subordinate Resolution has occurred and is continuing, upon thirty (30) days’ notice to the Paying Agent, or the Owners of a majority of the Series 2021 A Bonds Outstanding may by written request at any time upon thirty (30) days’ notice to Metropolitan and the Paying Agent and for any reason, remove the Paying Agent and any successor thereto, and Metropolitan will thereupon appoint a successor or successors thereto, subject to the qualifications set forth in the Paying Agent Agreement. Any removal of the Paying Agent will become effective upon acceptance

of appointment by the successor Paying Agent and the transfer of any Liquidity Facility. Upon the effective date of removal of the Paying Agent, the Paying Agent will deliver any Series 2021 A Bonds and moneys held by it in such capacity to its successor.

Resignation of Paying Agent. The Paying Agent or any successor may at any time resign by giving at least sixty (60) days' written notice to Metropolitan, the Fiscal Agent, any Liquidity Provider and the Remarketing Agent, and by giving notice by Mail to the Owners of its intention to resign and of the proposed date of resignation. Upon receiving such notice of resignation, Metropolitan will promptly appoint a successor Paying Agent by an instrument in writing; *provided, however,* that in the event Metropolitan fails to appoint a successor Paying Agent within forty-five (45) days following receipt of such written notice of resignation, the resigning Paying Agent may petition the appropriate court having jurisdiction to appoint a successor paying agent. Any resignation of the Paying Agent will become effective upon acceptance of appointment by the successor Paying Agent and the transfer of any Liquidity Facility. Upon the effective date of resignation of the Paying Agent, the Paying Agent will deliver any Series 2021 A Bonds and moneys held by it in such capacity to its successor.

Merger or Consolidation. Any company into which the Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Paying Agent may sell or transfer all or substantially all of its corporate trust business (provided that such company is eligible under the Paying Agent Agreement), will be the successor to the Paying Agent without the execution or filing of any papers or further act, anything in the Paying Agent Agreement to the contrary notwithstanding.

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

The Paying Agent will not be liable for any error in judgment made by a responsible officer of the Paying Agent, unless it will be proved that the Paying Agent was negligent in ascertaining the pertinent facts. The Paying Agent will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the written direction of the Owners of not less than a majority of the Outstanding Series 2021 A Bonds relating to the exercise of any trust or power conferred upon the Paying Agent under the Paying Agent Agreement.

Whenever in the administration of its duties under the Paying Agent Agreement the Paying Agent will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Paying Agent Agreement, such matter (unless other evidence in respect thereof is specifically prescribed) will be deemed to be conclusively proved and established by a certificate of an Authorized District Representative and such certificate will be full warranty to the Paying Agent for any action taken or suffered under the provisions of the Paying Agent Agreement in good faith reliance thereon,

but in its discretion the Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

The Paying Agent may become an Owner of Series 2021 A Bonds with the same rights it would have if it were not the Paying Agent; may acquire and dispose of Series 2021 A Bonds or other evidences of indebtedness of Metropolitan and enforce its rights as Owner thereof to the same extent as if it were not the Paying Agent; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Series 2021 A Bonds, whether or not such committee represents the Owners of a majority of the Series 2021 A Bonds Outstanding.

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

In accepting the appointment as Paying Agent under the Paying Agent Agreement, the Paying Agent acts solely as an agent for Metropolitan and not in its individual capacity and all persons, including without limitation the Owners and Metropolitan, having any claim against the Paying Agent arising from the Paying Agent Agreement will look only to the funds and accounts held by the Paying Agent under the Paying Agent Agreement for payment except as otherwise provided in the Paying Agent Agreement. The Paying Agent does not assume any obligation or relationship of agency or trust for the Owners, except that all funds held by the Paying Agent for the payment of principal of, or premium, if any, or interest on the Series 2021 A Bonds or for the payment of the Purchase Price for the Series 2021 A Bonds will be held in trust for such Owners as set forth in the Paying Agent Agreement and in the Series 2021 A Bonds. Under no circumstances will the Paying Agent be liable in its individual capacity for the obligations evidenced by the Series 2021 A Bonds.

The Paying Agent will not be deemed to have knowledge of any Event of Default under the Paying Agent Agreement or under the Master Subordinate Resolution unless and until the corporate trust department of the Paying Agent will have actual knowledge thereof. Upon the occurrence of any Event of Default the Paying Agent will have no duty or obligation to exercise any right, power or remedy under the Paying Agent Agreement.

The recitals contained in the Paying Agent Agreement and in the Series 2021 A Bonds, except the Paying Agent's certificates of authentication, will be taken as the recitals of Metropolitan, and the Paying Agent assumes no responsibility for the correctness of the same or for the accuracy or completeness of any information set forth or required to be set forth in any offering material, including any Official Statement or other disclosure document, used in connection with the offering for sale or the sale of the Series 2021 A Bonds. The Paying Agent will not be accountable for the use or application by Metropolitan or any other person of any funds which the Paying Agent has released under the Paying Agent Agreement.

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

The Paying Agent has the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to the Paying Agent Agreement and delivered using Electronic Means. "Electronic Means" means the following communications methods: e-mail, facsimile transmission,

secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Paying Agent, or another method or system specified by the Paying Agent as available for use in connection with its services under the Paying Agent Agreement; *provided, however,* that Metropolitan will provide to the Paying Agent an incumbency certificate listing officers with the authority to provide such Instructions (“Authorized Officers”) and containing specimen signatures of such Authorized Officers, which incumbency certificate will be amended by Metropolitan, whenever a person is to be added or deleted from the listing. If Metropolitan elects to give the Paying Agent Instructions using Electronic Means and the Paying Agent in its discretion elects to act upon such Instructions, the Paying Agent’s understanding of such Instructions will be deemed controlling. Metropolitan understands and agrees that the Paying Agent cannot determine the identity of the actual sender of such Instructions and that the Paying Agent will conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Paying Agent have been sent by such Authorized Officer. Metropolitan will be responsible for ensuring that only Authorized Officers transmit such Instructions to the Paying Agent and that Metropolitan and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by Metropolitan. The Paying Agent will not be liable for any losses, costs or expenses arising directly or indirectly from the Paying Agent’s reliance upon and compliance with such Instructions notwithstanding the fact that such directions conflict or are inconsistent with a subsequent written instruction. Metropolitan agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Paying Agent, including without limitation the risk of the Paying Agent acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Paying Agent and that there may be more secure methods of transmitting Instructions than the method(s) selected by Metropolitan; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Paying Agent immediately upon learning of any compromise or unauthorized use of the security procedures.

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

Indemnification. To the extent permitted by law, Metropolitan agrees to indemnify and save the Paying Agent and its officers, directors, agents and employees harmless from and against all liabilities, costs, suits, judgments, claims, suits and actions brought against it, or to which it is made a party, and from all losses and damages (including the reasonable fees and expenses of counsel) suffered by it as a result thereof, or in connection with or arising from any other document executed in connection with the Paying Agent Agreement, including where and to the extent such claim, suit or action arises out of the actions of any other party to the Paying Agent Agreement, except to the extent such claims arise from the negligence or willful misconduct of the Paying Agent. The foregoing sentence will survive the termination of the Paying Agent Agreement and the earlier removal or resignation of the Paying Agent. If Metropolitan is required to indemnify the Paying Agent as provided in the Paying Agent Agreement, Metropolitan will be subrogated to the rights of the Paying Agent to recover such losses or damages from any other person or entity.

Remarketing and Purchase of Series 2021 A Bonds During Interest Modes Other Than Flexible Index Mode or Index Mode

Notice of Series 2021 A Bonds Delivered for Purchase; Purchase of Series 2021 A Bonds.

The Fiscal Agent or Paying Agent will authenticate a new Series 2021 A Bond or Series 2021 A Bonds in an aggregate principal amount equal to the principal amount of Series 2021 A Bonds purchased in accordance with the Paying Agent Agreement, whether or not the Series 2021 A Bonds so purchased are presented by the Owners thereof on the purchase date therefor, bearing a number or numbers not contemporaneously outstanding. Every Series 2021 A Bond authenticated and delivered as provided in the Paying Agent Agreement will be entitled to all of the benefits of the Paying Agent Agreement equally and proportionately with any and all other Series 2021 A Bonds duly issued and authenticated under the Paying Agent Agreement. The Fiscal Agent or Paying Agent will maintain a record of the Series 2021 A Bonds purchased as provided in the Paying Agent Agreement, together with the names and addresses of the former Owners thereof. The Paying Agent will make the notation on the Bond Register designating as Bank Bonds any Series 2021 A Bonds purchased with moneys held in trust pursuant to the Paying Agent Agreement or as District Bonds any Series 2021 A Bonds purchased with moneys held in trust pursuant to the Paying Agent Agreement.

If any Series 2021 A Bonds purchased as provided in the Paying Agent Agreement will not be presented to the Paying Agent, the Paying Agent will segregate and hold the moneys for the Purchase Price of such Series 2021 A Bonds in trust for the benefit of the former Owners of such Series 2021 A Bonds, who will, except as provided in the following sentence, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the Purchase Price of such Series 2021 A Bonds, and such Series 2021 A Bonds will no longer be deemed Outstanding. Any moneys which the Paying Agent will segregate and hold in trust for the payment of the Purchase Price of any Series 2021 A Bond and remaining unclaimed for two (2) years after the date of purchase will, upon Metropolitan's written request to the Paying Agent, be paid to Metropolitan (without liability for interest). After the payment of such unclaimed moneys to Metropolitan, the former Owner of such Series 2021 A Bond will look only to Metropolitan for the payment thereof, and Metropolitan will not be liable for any interest thereon and will not be regarded as a trustee of such moneys.

Remarketing of Series 2021 A Bonds; Notice of Interest Rates.

(a) Notice of Interest Rates and Purchasers. The Remarketing Agent will determine the rate of interest (or, in the case of a tender for purchase in connection with a change of Interest Mode to the Flexible Index Mode or the Index Mode, the minimum fixed per annum interest rate spread to SIFMA) to be borne by the Series 2021 A Bonds during each Interest Rate Period (other than for Bank Bonds and District Bonds) and will furnish to Metropolitan, the Paying Agent and the Fiscal Agent on the Business Day immediately after the date of determination each rate of interest (or interest rate spread) so determined by Electronic Notice, promptly confirmed in writing; provided, that, during the Daily Mode, the Remarketing Agent may provide each effective Daily Rate relating to each day in a weekly report prepared and provided on the last Business Day of each week to the Notice Parties.

(b) Notice of Purchasers. In the case of: (i) (A) Series 2021 A Bonds tendered pursuant to the Paying Agent Agreement; and (B) Self-Liquidity Bonds in the Weekly Mode tendered pursuant to the Paying Agent Agreement, the Remarketing Agent will give notice to the Fiscal Agent and the Paying Agent by Electronic Notice no later than 4:00 p.m. (New York City time) on the Business Day preceding the purchase date therefor; and (ii) (A) Liquidity Supported Bonds tendered pursuant to the Paying Agent Agreement; (B) Self-Liquidity Bonds in the Daily Mode tendered pursuant to the Paying Agent Agreement, the Remarketing Agent will give notice to the Fiscal Agent and the Paying Agent by Electronic Notice no

later than 11:30 a.m. (New York City time) on the purchase date therefor, in each case: (x) specifying the aggregate principal amount of Series 2021 A Bonds, if any, sold by it; and (y) providing a list of such purchasers showing the names and denominations in which the Paying Agent will register such Series 2021 A Bonds in the Bond Register.

Delivery of Series 2021 A Bonds.

Series 2021 A Bonds purchased with remarketing proceeds will be made available by the Paying Agent to the Remarketing Agent for delivery to the purchasers thereof against payment therefor.

Unless otherwise provided in the applicable Liquidity Facility, the Paying Agent will hold Series 2021 A Bonds purchased from the Liquidity Facility, as agent of any Liquidity Provider.

Unless Metropolitan otherwise specifies in a written direction, the Paying Agent will hold Series 2021 A Bonds purchased with moneys from Metropolitan as agent of Metropolitan.

Except as provided in the Paying Agent Agreement, Series 2021 A Bonds delivered as provided in the Paying Agent Agreement will be registered in the manner directed by the recipient thereof.

Delivery of Proceeds of Sale. The proceeds of the sale by the Remarketing Agent of any Series 2021 A Bonds delivered to it by, or held by it for the account of, the Fiscal Agent or the Liquidity Provider, will be turned over to the Paying Agent by 11:30 a.m. (New York City time), on the Business Day on which Series 2021 A Bonds are to be purchased pursuant to the Paying Agent Agreement.

Demand of Metropolitan to Purchase Self-Liquidity Bonds. By 11:30 a.m. (New York City time) on the purchase date, the Paying Agent will notify Metropolitan by Electronic Notice as to the aggregate Purchase Price of tendered Self-Liquidity Bonds that Metropolitan is required to purchase and to make a demand for the purchase of such Self-Liquidity Bonds such that the Paying Agent will receive amounts sufficient to pay the Purchase Price of all tendered Self-Liquidity Bonds no later than 12:30 p.m. (New York City time) on the purchase date. If Metropolitan receives from the Paying Agent by Electronic Notice a demand for the purchase of Self-Liquidity Bonds pursuant to the Paying Agent Agreement no later than 11:30 a.m. (New York City time) on a purchase date, then Metropolitan covenants that it will deliver to the Paying Agent amounts sufficient for the Paying Agent to pay the Purchase Price of all tendered Self-Liquidity Bonds no later than 12:30 p.m. (New York City time) on the purchase date. Upon the receipt of amounts from Metropolitan, the Paying Agent will deposit an amount equal to the Purchase Price of all tendered Self-Liquidity Bonds in Metropolitan Account of the Purchase Fund. In determining the amount of any such Purchase Price then due, the Paying Agent will not take into consideration any Purchase Price due on any District Bonds to the extent identified to the Paying Agent and the Paying Agent will make no demand to Metropolitan to pay the Purchase Price of any District Bonds to the extent identified to the Paying Agent. By 2:30 p.m. (New York City time) the Paying Agent will purchase the tendered Self-Liquidity Bonds, and remit to Metropolitan such funds in Metropolitan Account which the Paying Agent did not use to purchase the tendered Series 2021 A Bonds. The foregoing provision does not apply to any Liquidity Supported Bonds.

Notice of Remarketing of Bank Bonds or District Bonds; Election Not to Sell Bank Bonds or District Bonds. From and after the date on which Series 2021 A Bonds become Bank Bonds or District Bonds, the Remarketing Agent will continue to use its best efforts to remarket the Bank Bonds or District Bonds, as applicable, at a price which will equal the principal amount thereof plus accrued and unpaid interest thereon to such date. The Liquidity Provider (or any subsequent Owner of a Bank Bond), in the case of Bank Bonds, and Metropolitan, in the case of District Bonds, will have the right, by written notice or by telephonic notice, promptly confirmed in writing to the Remarketing Agent, the Fiscal Agent and the

Paying Agent, to elect not to sell the Bank Bonds or Metropolitan Bonds, as applicable, or any portion thereof. If: (a) the Remarketing Agent sells Bank Bonds or District Bonds or the Liquidity Provider or Metropolitan elects not to sell Bank Bonds or District Bonds, as applicable, in each case, pursuant to the Paying Agent Agreement; (b) the Paying Agent, on behalf of the Liquidity Provider or Metropolitan, as applicable, receives the Purchase Price for such Bank Bonds or District Bonds (unless the Liquidity Provider or Metropolitan elect not to sell such Bank Bonds or District Bonds); and (c) solely in the case of Bank Bonds, the Liquidity Provider provides written notice to the Paying Agent that it reinstates the Liquidity Facility then in effect in the principal amount equal to such Bank Bonds, then such Series 2021 A Bonds will cease to be Bank Bonds or District Bonds, as applicable, and will bear interest as provided in the Paying Agent Agreement for Series 2021 A Bonds other than Bank Bonds or District Bonds. Notwithstanding anything in the Paying Agent Agreement to the contrary, if Metropolitan purchased any District Bonds in whole or in part from proceeds from any Revolving Credit Facility, Metropolitan will have no right to elect not to sell District Bonds pursuant to the Paying Agent Agreement unless Metropolitan delivers a certificate to the Paying Agent (which certificate will be dated no earlier than five (5) days before the date on which District Bonds are to be sold pursuant to the Paying Agent Agreement) that, as of the date of the certificate, there were no amounts then outstanding under any such Revolving Credit Facility.

Liquidity Facilities and Alternate Liquidity Facilities

Liquidity Facilities and Alternate Liquidity Facilities for the Series 2021 A Bonds Designated as Liquidity Supported Bonds. On the effective date of any designation of the Series 2021 A Bonds as Liquidity Supported Bonds (either in connection with a change in the Interest Mode of the Series 2021 A Bonds to the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode or pursuant a change from Self-Liquidity Bonds to Liquidity Supported Bonds), Metropolitan will cause to be executed and delivered to the Paying Agent a Liquidity Facility providing for the purchase, in accordance with the terms thereof, of the Series 2021 A Bonds, which are tendered for purchase as provided in the Paying Agent Agreement and not remarketed. In connection with the execution and delivery of a Liquidity Facility, Metropolitan will satisfy all of the conditions set forth in the Paying Agent Agreement. Notwithstanding the foregoing, any Liquidity Facility (and any Alternate Liquidity Facility) may provide for conditions under which the Liquidity Provider's obligation to purchase Liquidity Supported Bonds are automatically terminated or suspended. Metropolitan directs the Paying Agent to take such actions under any Liquidity Facility then in effect as may be required to cause the Liquidity Provider to purchase tendered Series 2021 A Bonds which are Liquidity Supported Bonds for which there are not sufficient remarketing proceeds from the sale of such Series 2021 A Bonds to purchase such tendered Series 2021 A Bonds. During any Flexible Index Mode or Index Mode or at any time on or after the Fixed Rate Date, Metropolitan will have no obligation to provide or to maintain a Liquidity Facility. Further, Metropolitan will have no obligation to provide or maintain a Liquidity Facility for the Series 2021 A Bonds during any Daily Mode, Weekly Mode, Short-Term Mode or Long Mode in which the Series 2021 A Bonds have been designated as Self-Liquidity Bonds.

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

(b) If during any period in which the Series 2021 A Bonds bear interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode: (i) Metropolitan changes the then applicable designation of the Series 2021 A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds (either in connection with a change in the Interest Mode of the Series 2021 A Bonds to a Daily Mode, Weekly Mode, Short-Term Mode or Long Mode or pursuant the Paying Agent Agreement); or (ii) Metropolitan delivers an

Alternate Liquidity Facility and otherwise satisfies the requirements of the Paying Agent Agreement; or (iii) Metropolitan changes the Interest Mode of the Series 2021 A Bonds to the Flexible Index Mode or the Index Mode or converts the Series 2021 A Bonds to a Fixed Interest Rate, then Metropolitan will surrender the Liquidity Facility previously in effect on the effective date of the change, the effective date of the Alternate Liquidity Facility or the conversion, as applicable; *provided, however*, that if the Series 2021 A Bonds are subject to mandatory tender for purchase under the Paying Agent Agreement upon such change or upon the effectiveness of such Alternate Liquidity Facility, then the Paying Agent will surrender such Liquidity Facility only after the Purchase Price of all Series 2021 A Bonds tendered on such date has been fully paid. The Paying Agent will comply with the procedure set forth in the Liquidity Facility relating to the termination thereof.

Conditions to the Effectiveness of Liquidity Facilities and Alternate Liquidity Facilities for the Series 2021 A Bonds. If: (a) in connection with a change in the Interest Mode for the Series 2021 A Bonds to the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode; or (b) at any time while the Series 2021 A Bonds bear interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode and are designated as Liquidity Supported Bonds; or (c) upon a change in the then applicable designation of Series 2021 A Bonds in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode from Self-Liquidity Bonds to Liquidity Supported Bonds, there will be delivered to the Paying Agent:

- (i) a Liquidity Facility or an Alternate Liquidity Facility covering the Series 2021 A Bonds which will contain administrative provisions reasonably satisfactory to the Paying Agent;
- (ii) a Favorable Opinion of Bond Counsel;
- (iii) an opinion of counsel satisfactory to the Remarketing Agent to the effect that such Liquidity Facility or such Alternate Liquidity Facility is a valid and enforceable obligation of the proposed issuer or provider thereof; and
- (iv) all information required to give the notice of mandatory tender for purchase of the Series 2021 A Bonds as and if required by the Paying Agent Agreement;

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

Notice by Paying Agent to Reduce Liquidity Facility. If any Liquidity Supported Bonds will be redeemed, defeased or otherwise retired in whole or in part, the Paying Agent, at the written direction of Metropolitan, will give notice to the Liquidity Provider in the manner required by the Liquidity Facility to reflect such reduction in the principal amount of the Series 2021 A Bonds as a result of such redemption, defeasance or retirement and no notice to the Owners of the Series 2021 A Bonds of such reduction, nor any purchase thereof under the Paying Agent Agreement, will occur as a result thereof.

Liquidity Supported Bonds and Self-Liquidity Bonds

Designation and Consequences of Series 2021 A Bonds as Liquidity Supported Bonds or Self-Liquidity Bonds.

- (a) While the Series 2021 A Bonds bear interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode, such Series 2021 A Bonds are Variable Rate Bonds under the Nineteenth Supplemental Indenture. Metropolitan will designate all Series 2021 A Bonds bearing interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode to be either Self-Liquidity Bonds or Liquidity Supported Bonds. As provided in the Paying Agent Agreement, upon the date of delivery of the Series 2021 A Bonds in the Weekly Mode, Metropolitan has initially designated the Series 2021 A Bonds to be

Liquidity Supported Bonds. The Series 2021 A Bonds will continue to be Liquidity Supported Bonds unless and until: (i) Metropolitan changes the Series 2021 A Bonds to Self-Liquidity Supported Bonds either pursuant to the Paying Agent Agreement or in connection with a change in the Interest Mode on the Series 2021 A Bonds to the Weekly Mode, Short-Term Mode or Long Mode; (ii) Metropolitan changes the Interest Mode of the Series 2021 A Bonds to the Flexible Index Mode or the Index Mode; or (iii) Metropolitan converts the interest rate on the Series 2021 A Bonds to a Fixed Interest Rate. In connection with any change in the Interest Mode of the Series 2021 A Bonds to the Weekly Mode, Daily Mode (from a subsequent different Interest Mode), Short-Term Mode or Long Mode, Metropolitan will designate the Series 2021 A Bonds either as Liquidity Supported Bonds or as Self-Liquidity Bonds in the written direction required pursuant to the Paying Agent Agreement.

(b) While Series 2021 A Bonds bear interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode and are Liquidity Supported Bonds:

(i) Metropolitan will have no liability to purchase Liquidity Supported Bonds tendered pursuant to the Paying Agent Agreement from any of its assets other than remarketing proceeds or amounts drawn upon the Liquidity Facility; and

(ii) The Series 2021 A Bonds will be subject to the provisions that are described under the caption "LIQUIDITY FACILITIES AND ALTERNATE LIQUIDITY FACILITIES".

(c) While Series 2021 A Bonds bear interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode and are Self-Liquidity Bonds:

(i) Metropolitan will be irrevocably committed and obligated to pay the Purchase Price of all Series 2021 A Bonds tendered pursuant to the Paying Agent Agreement on the applicable purchase date therefor;

(ii) The Series 2021 A Bonds will not be subject to the provisions that are described under the caption "LIQUIDITY FACILITIES AND ALTERNATE LIQUIDITY FACILITIES"; and

(iii) The Series 2021 A Bonds will be subject to the provisions of the Paying Agent Agreement.

Change of Series 2021 A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds.

(a) With respect to any Series 2021 A Bonds bearing interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode that are at that time designated as Liquidity Supported Bonds, Metropolitan may elect to change the Series 2021 A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds by delivering a written direction to the other Notice Parties not later than ten (10) days before the effective date of the change to Self-Liquidity Bonds. The effective date of the change to Self-Liquidity Bonds will be a Business Day. The written direction of Metropolitan will specify: (1) the effective date of the change to Self-Liquidity Bonds; and (2) if applicable, the date of delivery for the Series 2021 A Bonds to be purchased (if other than the effective date) pursuant to the Paying Agent Agreement. In addition, together with any such written direction, Metropolitan will include a form of notice that the Paying Agent is required to give to the Owners of the Bonds as provided in the Paying Agent Agreement. From and after the effective date of the change to Self-Liquidity Bonds, the Series 2021 A Bonds will be Self-Liquidity Bonds unless and until: (i) Metropolitan changes the Series 2021 A Bonds to Liquidity Supported Bonds; (ii) Metropolitan changes the Interest Mode for the Series 2021 A Bonds to the Flexible Index Mode or the Index Mode; or (iii) the Fixed Rate Date.

(b) If Metropolitan elects to change Series 2021 A Bonds in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode from Liquidity Supported Bonds to Self-Liquidity Bonds, then on or before the effective date of the change, Metropolitan will cause to be provided to the other Notice Parties written confirmation from each of the Rating Agencies that the change from Liquidity Supported Bonds to Self-Liquidity Bonds, in and of itself, will not result in the withdrawal or reduction of the rating of the short-term rating(s) then applicable to the Series 2021 A Bonds. If Metropolitan fails to deliver such written confirmation from each of the Rating Agencies, then the Series 2021 A Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of such change as provided in the Paying Agent Agreement; *provided, however,* that, notwithstanding anything in the Paying Agent Agreement to the contrary, Metropolitan will have no liability or obligation to pay the Purchase Price of Series 2021 A Bonds so tendered.

(c) The Paying Agent will give notice by Mail to the Owners of the Series 2021 A Bonds (or, if the Series 2021 A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), together with the notice required by the Paying Agent Agreement, of a change to Self-Liquidity Bonds not less than seven (7) days before the effective date of the change. The notice will state: (i) the effective date of the change from Liquidity Supported Bonds to Self-Liquidity Bonds; and (ii) if applicable, that the Series 2021 A Bonds are subject to mandatory tender for purchase on such effective date, setting forth the applicable Purchase Price.

Event of Default and Purchase Default Period

Event of Default. If Metropolitan will fail to pay the Purchase Price of Series 2021 A Bonds under the Paying Agent Agreement, then such failure will be an “Event of Default” under the Paying Agent Agreement and a Purchase Default Period will commence. Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of Series 2021 A Bonds under the Paying Agent Agreement will not constitute an “Event of Default” under the Master Subordinate Resolution or under any other provision of the Resolutions.

Purchase Default Period. During a Purchase Default Period, the following will apply:

- (a) All of the Series 2021 A Bonds will bear interest at the Purchase Default Rate;
- (b) The Series 2021 A Bonds will not be subject to optional redemption pursuant to the Paying Agent Agreement;
- (c) The Series 2021 A Bonds will remain subject to redemption from Mandatory Sinking Account Payments pursuant to the Paying Agent Agreement;
- (d) The Series 2021 A Bonds will be subject to special mandatory redemption on the dates and in the principal amounts set forth in the Paying Agent Agreement;
- (e) Metropolitan will not require the Owners to tender Series 2021 A Bonds for purchase pursuant to the provisions of the Paying Agent Agreement;
- (f) Metropolitan will continue to be obligated to purchase all of the Series 2021 A Bonds tendered on the Scheduled Mandatory Tender Date at the Purchase Price, notwithstanding, and in addition to, the obligation of Metropolitan to redeem Outstanding Series 2021 A Bonds from Special Mandatory Redemption Payments pursuant to the Paying Agent Agreement; and

(g) If Metropolitan pays the Purchase Price, on any date, of all or any portion of the Series 2021 A Bonds, the Owners of such Series 2021 A Bonds will be obligated to sell and deliver such Series 2021 A Bonds to Metropolitan as set forth in the Paying Agent Agreement.

Purchase and Sale of Series 2021 A Bonds During Purchase Default Period. During a Purchase Default Period, Metropolitan will pay the Purchase Price of any Series 2021 A Bonds by delivering the Purchase Price for Series 2021 A Bonds to be purchased to the Paying Agent at its Corporate Trust Office on any Business Day.

If on any Business Day Metropolitan pays the Purchase Price with respect to only a portion of the Series 2021 A Bonds, then Metropolitan will purchase Series 2021 A Bonds from each of the Owners on a *pro rata* basis, calculated based on the Outstanding principal amount of the Series 2021 A Bonds held by each Owner compared to the total amount of Series 2021 A Bonds Outstanding on such Business Day.

From and after the Business Day on which Metropolitan delivers the Purchase Price of all or any portion of the Series 2021 A Bonds to the Paying Agent (each such date, a “Purchase Default Period Purchase Date”), such Series 2021 A Bonds will be deemed purchased by Metropolitan, no interest will accrue on such Series 2021 A Bonds and the Owners thereof will have no rights under the Resolutions other than to receive payment of the Purchase Price thereof.

Termination of Purchase Default Period. During any Purchase Default Period, upon the purchase by Metropolitan of all Series 2021 A Bonds, the Event of Default under the Paying Agent Agreement will be cured and the Purchase Default Period attributable to such Event of Default will terminate on the date next preceding the date on which such purchase occurs.

Bondholders’ Committee. In addition to any rights that the Owners of the Series 2021 A Bonds may have under the Resolutions, if an Event of Default will have occurred and be continuing under the Paying Agent Agreement, the Owners of twenty-five percent (25%) in aggregate principal amount of the Series 2021 A Bonds then Outstanding may call a meeting of the Owners of the Series 2021 A Bonds for the purpose of electing a Bondholders’ committee (a “Bondholders’ Committee”). At such meeting, the Owners of not less than a majority in aggregate principal amount of Series 2021 A Bonds must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders’ Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof: (a) will prescribe the manner in which the successors of the persons elected to the Bondholders’ Committee will be elected or appointed; (b) may prescribe rules and regulations governing the exercise by the Bondholders’ Committee of the power conferred upon it in the Paying Agent Agreement; and (c) may provide for the termination of the existence of the Bondholders’ Committee. The Bondholders’ Committee is declared to be trustee for the Owners of all of the Series 2021 A Bonds then Outstanding, and is empowered to exercise in the name of the Bondholders’ Committee as trustee all the rights and powers conferred in the Paying Agent Agreement on any Owner, *provided, however,* that whenever any provision of the Paying Agent Agreement requires the consent, approval or concurrence of the Owners of a specified percentage of principal of the Outstanding Series 2021 A Bonds, in order to exercise the right or power conferred in the Paying Agent Agreement on the Owners to which such percentage obtains, the Bondholders’ Committee either will have been elected by or their election will have been approved by or concurred by, and such committee will then represent, the Owners of such specified percentage of the principal amount of the Outstanding Series 2021 A Bonds. A certificate of the election of the Bondholders’ Committee, including the names and addresses of its chair and other members, will be filed with the Authorized Representative.

Other Remedies, Rights of Owners of the Series 2021 A Bonds. Upon the occurrence and continuation of an Event of Default, the Owners of the Series 2021 A Bonds may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Paying Agent Agreement.

The rights of the Owners of the Series 2021 A Bonds pursuant to in the Paying Agent Agreement will be in addition to any rights that the Owners of the Series 2021 A Bonds may have under the Resolutions.

Notwithstanding anything in in the Paying Agent Agreement to the contrary, no Owner of Series 2021 A Bonds will have the right to declare the principal and accrued interest on any Series 2021 A Bonds to be immediately due and payable except as provided in the Resolutions.

No remedy conferred by the Paying Agent Agreement upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy will be cumulative and will be in addition to any other remedy given to the Owners of the Series 2021 A Bonds under the Paying Agent Agreement and under the Resolutions or now or later 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 will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence in the Paying Agent Agreement, 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 under the Paying Agent Agreement by the Owners of the Series 2021 A Bonds will extend to or will affect any subsequent default or Event of Default or will impair any rights or remedies consequent thereon.

Modification or Amendment of the Paying Agent Agreement

Amendments Permitted with Consent of the Owners.

(a) The Paying Agent Agreement and the rights and obligations of Metropolitan, the Owners of the Series 2021 A Bonds, the Paying Agent and the Fiscal Agent may be modified or amended from time to time and at any time by the execution and delivery by Metropolitan and the Paying Agent of a Supplemental Agreement so long as the Owners of a majority in aggregate principal amount of the Series 2021 A Bonds then Outstanding consent to such Supplemental Agreement in writing; *provided, however,* that if such modification or amendment will, by its terms, not take effect so long as any Series 2021 A Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Series 2021 A Bonds will not be required and such Series 2021 A Bonds will not be deemed to be Outstanding for the purpose of any calculation of Series 2021 A Bonds Outstanding under the Paying Agent Agreement .

(b) No such modification or amendment may: (i) extend the fixed maturity of any Series 2021 A Bond, reduce the principal amount thereof, extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Series 2021 A Bond, reduce the rate of interest thereon, 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 Series 2021 A Bond so affected; (ii) reduce the aforesaid percentage of principal amount the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the Series 2021 A Bonds then Outstanding; or (iii) modify any rights or duties of the Paying Agent or the Fiscal Agent without its consent.

(c) It is not necessary for the consent of the Owners to approve the particular form of any Supplemental Agreement, but it will be sufficient if such consent approves the substance thereof. Promptly

after the execution and delivery of any Supplemental Agreement pursuant to the Paying Agent Agreement, the Paying Agent will mail a notice provided by Metropolitan, setting forth in general terms the substance of any Supplemental Agreement to the Owners of the Series 2021 A Bonds at the addresses shown on the Bond Register. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity or effectiveness of any such Supplemental Agreement.

Amendments Not Requiring Owner Consent.

(a) The Paying Agent Agreement and the rights and obligations of Metropolitan, the Paying Agent, the Fiscal Agent and the Owners of the Series 2021 A Bonds may also be modified or amended from time to time and at any time by a Supplemental Agreement, which Metropolitan and the Paying Agent may execute and deliver without the consent of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of Metropolitan in the Paying Agent Agreement thereafter to be observed, to pledge or assign additional security for the Series 2021 A Bonds (or any portion thereof) or to surrender any right or power in the Paying Agent Agreement reserved to or conferred upon Metropolitan, in each case which will not materially and adversely affect the interests of the Owners of any of the Series 2021 A Bonds;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Paying Agent Agreement, or in regard to matters or questions arising under the Paying Agent Agreement, as Metropolitan may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of any of the Series 2021 A Bonds;

(iii) to modify, amend or supplement the Paying Agent Agreement in such manner as to permit the qualification of the Paying Agent Agreement under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of any of the Series 2021 A Bonds;

(iv) to maintain the exclusion of interest on the Series 2021 A Bonds from gross income for purposes of federal income taxation or to make such provisions as are necessary or appropriate to ensure such exclusion; and

(v) for any other purpose that does not materially and adversely affect the interests of the Owners of any of the Series 2021 A Bonds.

(b) Notwithstanding any provision of the Paying Agent Agreement to the contrary, any provision or term of the Paying Agent Agreement may be modified or amended without the consent of the Owners of the Series 2021 A Bonds if: (a) such amendment becomes effective upon the Mandatory Purchase Date in connection with any mandatory tender for purchase of the Series 2021 A Bonds pursuant to the Paying Agent Agreement; (b) such amendment does not affect the right of the tendering Owners to receive the payment of the Purchase Price payable upon such mandatory tender for purchase of the Series 2021 A Bonds; and (c) the content of the amendment is included in a notice of mandatory tender for purchase which the Paying Agent delivers to the Owners pursuant to the Paying Agent Agreement. In executing, or accepting the additional trusts created by, any amendment permitted by the Paying Agent Agreement, the Paying Agent will be entitled to receive, and will be fully protected in relying upon, an opinion of counsel stating that the execution of such amendment is authorized or permitted by the Paying Agent Agreement and complies with the terms of the Paying Agent Agreement. The Paying Agent may,

but will not be obligated to, enter into any such amendment which affects the Paying Agent's own rights, duties or immunities under the Paying Agent Agreement or otherwise.

Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective pursuant to the Paying Agent Agreement, the Paying Agent Agreement will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Paying Agent Agreement of Metropolitan, the Paying Agent, the Fiscal Agent, the Remarketing Agent and all Owners of Series 2021 A Bonds Outstanding will thereafter be determined, exercised and enforced under the Paying Agent Agreement subject in all respects to such modification and amendment, and all of the terms and conditions of any such Supplemental Agreement will be deemed to be part of the terms and conditions of the Paying Agent Agreement for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Series 2021 A Bonds delivered after any Supplemental Agreement becomes effective pursuant to the Paying Agent Agreement may, and if the Paying Agent so determines will, bear a notation by endorsement or otherwise in form approved by Metropolitan and the Paying Agent as to any modification or amendment provided for in such Supplemental Agreement, and, in that case, upon demand of the Owner of any Series 2021 A Bond Outstanding at the time of such execution and presentation of such Owner's Series 2021 A Bond for such purpose at the Corporate Trust Office of the Paying Agent, a suitable notation will be made on such Series 2021 A Bond. If a Supplemental Agreement will so provide, new Series 2021 A Bonds so modified as to conform, in the opinion of Metropolitan and the Paying Agent, to any modification or amendment contained in such Supplemental Agreement, will be prepared and executed by Metropolitan and authenticated by the Paying Agent, and upon demand of the Owners of any Series 2021 A Bonds then Outstanding will be exchanged at the Corporate Trust Office of the Paying Agent, without cost to any Owner, for Series 2021 A Bonds then Outstanding, upon surrender for cancellation of such Series 2021 A Bonds, in equal aggregate principal amounts, tenor and maturity.

Amendment of Particular Bond. The provisions of the Paying Agent Agreement will not prevent any Owner from accepting any amendment as to the particular Series 2021 A Bonds held by such Owner, provided that due notation thereof is made on such Series 2021 A Bonds.

Miscellaneous

Liability of District Limited to Net Operating Revenues.

(a) Notwithstanding anything contained in the Paying Agent Agreement to the contrary, Metropolitan will not be required to advance any moneys derived from any source other than the Net Operating Revenues for any of the purposes in the Paying Agent Agreement mentioned, whether for the payment of the Purchase Price, principal, or Redemption Price of or interest on the Series 2021 A Bonds or for any other purpose of the Paying Agent Agreement. If the Series 2021 A Bonds are in the Flexible Index Mode, the Master Note will evidence Metropolitan's obligation to make payment of the Purchase Price, principal, or Redemption Price of or interest on the Series 2021 A Bonds from the sources and to the extent described in the Paying Agent Agreement, but will not constitute a separate obligation of Metropolitan to make such payment. Any payments by Metropolitan of the Purchase Price, principal, or Redemption Price of or interest on the Series 2021 A Bonds will constitute a payment under and pursuant to the Master Note, and Metropolitan will be credited for such payments under the Master Note. In no event will Metropolitan be obligated to make payments under the Master Note other than the payments Metropolitan is obligated to make pursuant to and in accordance with the terms of the Series 2021 A Bonds.

(b) The general fund of Metropolitan is not liable for the payment of any Purchase Price, principal, or Redemption Price of or interest on the Series 2021 A Bonds or the Master Note, nor is the

credit or taxing power of Metropolitan pledged for the payment of any Purchase Price, principal, or Redemption Price of or interest on the Series 2021 A Bonds or the Master Note. No Owner of any Series 2021 A Bond or holder of the Master Note may compel the exercise of the taxing power by Metropolitan or the forfeiture of any of its property.

Investment of Amounts Held under the Paying Agent Agreement.

(a) Moneys held in Funds and Accounts (other than moneys held in the Purchase Fund, which will be held uninvested) will be invested and reinvested as directed in writing by the Treasurer solely in Authorized Investments and consistent with Metropolitan's investment policy then in effect, subject to the restrictions set forth in the Master Subordinate Resolution and the Paying Agent Agreement and subject to the investment restrictions imposed upon Metropolitan by the laws of the State. The Treasurer will direct such investments by written certificate. The Paying Agent has no responsibility or liability in respect of the selection of any investment made in accordance with the instructions of the Treasurer or his authorized designee.

The Paying Agent has no obligation to invest and reinvest any cash held by it under the Paying Agent Agreement in the absence of timely and specific written investment direction from Metropolitan. In no event will the Paying Agent be liable for investment losses incurred thereon. The Paying Agent may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Paying Agent Agreement. The Paying Agent may rely on the investment directions of Metropolitan as to both the suitability and legality of the directed investments. Metropolitan acknowledges that regulations of the Comptroller of the Currency grant Metropolitan the right to receive brokerage confirmations of the security transactions as they occur, at no additional cost. To the extent permitted by law, Metropolitan specifically waives compliance with 12 C.F.R. 12 and notifies the Paying Agent that no brokerage confirmations need be sent relating to the security transactions as they occur.

(b) Investments in any Fund or Account will be deemed at all times to be a part of such Fund or Account, and the interest accruing thereon and any profit realized from such investment will be credited to such Fund or Account and any loss resulting from such investment will be charged to such Fund or Account.

Defeasance. The Series 2021 A Bonds may be defeased in whole or in part upon satisfaction of the provisions of the Master Subordinate Resolution, provided that, in addition to the requirements of such provisions, in connection with the defeasance of the Series 2021 A Bonds bearing interest at a Daily Mode or a Weekly Mode there will be provided to the Paying Agent written evidence from each Rating Agency to the effect that the defeasance of such Series 2021 A Bonds, in and of itself, will not result in the withdrawal or reduction of the rating short-term rating then assigned to such Series 2021 A Bonds. During any period in which the Series 2021 A Bonds are in the Flexible Index Mode and a Master Note will be in effect to evidence the Series 2021 A Bonds, a defeasance of all or any portion of the Series 2021 A Bonds will result in a like defeasance of the Master Note (in whole or in part) evidencing such Series 2021 A Bonds.

Parties in Interest. Except as otherwise specifically provided in the Paying Agent Agreement, nothing in the Paying Agent Agreement expressed or implied is intended or will be construed to confer upon any person, firm or corporation other than Metropolitan, the Paying Agent, the Fiscal Agent, the Remarketing Agent, any Liquidity Provider and the Owners any right, remedy or claim under or by reason of the Paying Agent Agreement, which is intended to be for the sole and exclusive benefit of Metropolitan, the Paying Agent, the Fiscal Agent, the Remarketing Agent, any Liquidity Provider and the Owners.

Severability. In case any one or more of the provisions of the Paying Agent Agreement, or of any Series 2021 A Bonds issued under the Paying Agent Agreement will, for any reason, be held to be illegal or invalid, such illegality or invalidity will not affect any other provisions of the Paying Agent Agreement, or of the Series 2021 A Bonds, and the Paying Agent Agreement and any Series 2021 A Bonds issued under the Paying Agent Agreement will be construed and enforced as if such illegal or invalid provisions had not been contained in the Paying Agent Agreement or therein.

No Personal Liability of District Officials; Limited Liability of District to Owners of Series 2021 A Bonds. No covenant or agreement contained in the Series 2021 A Bonds or in the Paying Agent Agreement will be deemed to be the covenant or agreement of any present or future official, officer, agent or employee of Metropolitan in his individual capacity, and neither the members of the Board of Directors of Metropolitan nor any person executing the Series 2021 A Bonds will be liable personally on the Series 2021 A Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

(a) Except for the payment when due of the payments required under the Paying Agent Agreement and the observance and performance of the other agreements, conditions, covenants and terms required to be performed by it contained in the Paying Agent Agreement, Metropolitan has no obligation or liability to the Owners with respect to the Paying Agent Agreement or the preparation, execution, delivery, transfer, exchange or cancellation of the Series 2021 A Bonds or the receipt, deposit or disbursement of the payments by the Paying Agent, or with respect to the performance by the Paying Agent of any obligation required to be performed by it contained in the Paying Agent Agreement.

(b) Metropolitan has no obligation or liability to the Owners with respect to the Paying Agent Agreement, including, but not limited to, the payment of principal of and interest on the Series 2021 A Bonds and the payment of the Purchase Price of any Self-Liquidity Bonds, other than from Net Operating Revenues.

Execution of Instruments; Proof of Ownership.

(a) Any request, direction, consent or other instrument in writing required or permitted by the Paying Agent Agreement to be signed or executed by Owners or on their behalf by an attorney-in-fact may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Owners in person or by an agent or attorney-in-fact appointed by an instrument in writing or as provided in the Series 2021 A Bonds. Proof of the execution of any such instrument and of the ownership of the Series 2021 A Bonds will be sufficient for any purpose of the Paying Agent Agreement and will be conclusive in favor of the Paying Agent with regard to any action taken by it under such instrument if made in the following manner:

(i) the fact and date of the execution by any person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments within such jurisdiction, to the effect that the person signing such instrument acknowledged before him the execution thereof, or by an affidavit of a witness to such execution; and

(ii) the ownership of Series 2021 A Bonds will be proved by the registration books kept under the provisions of the Paying Agent Agreement.

(b) Nothing contained in the Paying Agent Agreement will be construed as limiting the Paying Agent to such proof. The Paying Agent may accept any other evidence of matters stated in the Paying Agent Agreement which it may deem sufficient. Any request, consent of, or assignment by any Owner of a Bond will bind every future Owner of the same Series 2021 A Bond issued in lieu thereof in respect of anything done by the Paying Agent or Metropolitan in pursuance of such request or consent.

Governing Law. The internal laws of the State (without regard to conflicts of laws principles) will govern the construction and enforcement of the Paying Agent Agreement and of all Series 2021 A Bonds issued under the Paying Agent Agreement.

Notices.

(a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted by the Paying Agent Agreement or the Series 2021 A Bonds must be in writing except as expressly provided otherwise in the Paying Agent Agreement or in the Series 2021 A Bonds.

(b) The Paying Agent will give written notice to the Rating Agencies and the Liquidity Provider, if any, as soon as reasonably practicable, of the occurrence of any of the following events:

- (i) appointment of a successor Paying Agent;
- (ii) amendment to the Paying Agent Agreement, or, upon notice thereof from Metropolitan, any amendment of any Liquidity Facility then in effect or the Resolutions;
- (iii) redemption of the Series 2021 A Bonds;
- (iv) change in the Interest Mode of the Series 2021 A Bonds or conversion to a Fixed Interest Rate;
- (v) change in the designation of any Series 2021 A Bonds as Liquidity Supported Bonds or Self-Liquidity Bonds;
- (vi) removal or resignation of the Fiscal Agent, the Paying Agent or the Remarketing Agent;
- (vii) expiration, termination, suspension, extension or substitution of a Liquidity Facility;
- (viii) mandatory tender for purchase of the Series 2021 A Bonds;
- (ix) defeasance of the Series 2021 A Bonds;
- (x) acceleration of the Series 2021 A Bonds; or
- (xi) the Series 2021 A Bonds are no longer Book-Entry Bonds.

Notice in the case of an event referred to in clause (ii) above will include a copy of any such amendment.

Information to Rating Agencies. Metropolitan will provide to any Rating Agency such information relating to the Series 2021 A Bonds or Metropolitan as reasonably will be requested by such Rating Agency, within a reasonable period following the request therefor.

Non-Business Days. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Paying Agent Agreement, is not a Business Day, such payment may, unless otherwise provided in the Paying Agent Agreement, be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the stated date

provided in the Paying Agent Agreement, and no interest will accrue for the period from and after such stated date.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION

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APPENDIX D

**SUMMARY OF CERTAIN PROVISIONS OF THE
SENIOR DEBT RESOLUTION**

The following is a summary of certain provisions of the Senior Debt Resolution. This summary does not purport to be complete and is qualified in its entirety by reference to the Senior Debt Resolution for a complete statement of provisions thereof.

Definitions

The following are definitions of certain terms used in this Summary. Such definitions also apply to terms used in the Official Statement to the extent that such terms are not otherwise defined in the Official Statement. Terms not defined below have the meanings specified in the Resolutions.

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

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

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

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

“Authorized Investments” means, any investments in which Metropolitan 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 Metropolitan (as amended from time to time), as certified to each Fiscal Agent, and will include Designated Investments.

“Authorized Representative” means each of the General Manager and the Director of Finance and any other officer or employee of Metropolitan authorized by the General Manager or the Director of Finance to act as an Authorized Representative.

“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 was 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 the Senior Debt Resolution.

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

“Bonds” means The Metropolitan Water District of Southern California Water Revenue Bonds, authorized by and at any time Outstanding pursuant to the Senior Debt 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 Metropolitan is authorized to be closed.

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

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

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

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

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

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

“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.

“Director of Finance” means the Chief Financial Officer of Metropolitan.

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

“Expenditures” means cash disbursements of Metropolitan.

“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.

“Final Compounded Amount” means the Accreted Value of any Capital Appreciation Bond on its maturity date.

“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 1 of each year and ending on the next succeeding June 30, or any other twelve-month period later selected by Metropolitan as the official fiscal year of Metropolitan.

“General Manager” means the General Manager of Metropolitan.

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

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

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

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

(b) if the Parity Obligations or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues subordinate to the lien of the Parity Obligations or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Obligations or Bonds for periods when the actual interest rate cannot yet be determined will be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity Obligations or Bonds on the date of calculation or, if

such Parity Obligations or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Obligations or Bonds would bear if they were Outstanding on such date, as certified by a Certificate of a financial advisor or investment banker delivered to Metropolitan;

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

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

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

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

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

(i) 0 and

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

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

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

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

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

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

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

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

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

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

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

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

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

“Outstanding” means (1) when used as of any particular time with reference to Bonds (excluding, solely for the purpose of determining whether the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, or waiver, those Bonds which are owned by or held by or for the account of Metropolitan), all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Senior Debt Resolution except (A) Bonds theretofore cancelled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (B) Bonds

with respect to which all liability of Metropolitan has been discharged in accordance with the Senior Debt Resolution; (C) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Senior Debt Resolution; and (D) Bonds no longer deemed to be outstanding under the Senior Debt Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued; (2) when used as of any particular time with reference to Prior Lien Bonds, all Prior Lien Bonds deemed outstanding within the meaning of the respective Prior Lien Bonds Resolutions; and (3) when used as of any particular time with reference to Parity Obligations, all Parity Obligations deemed outstanding or not satisfied within the meaning of the documents authorizing such Parity Obligations.

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

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

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

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

“Prior Lien Bonds” means the bonds issued and outstanding pursuant to the Prior Lien Bonds Resolutions.

“Prior Lien Bonds Maximum Annual Debt Service” with respect to the Prior Lien Bonds means the largest of the sums obtained by totaling for the current Fiscal Year and each future Fiscal Year (a) the principal amount of serial Prior Lien Bonds maturing during such Fiscal Year, (b) the principal amount of term Prior Lien Bonds maturing or required to be paid during such Fiscal Year, together with any premium thereon, and (c) the interest which would be due during such Fiscal Year on such serial Prior Lien Bonds and term Prior Lien Bonds; all after excluding from such amounts principal and interest on Prior Lien Bonds previously retired.

“Prior Lien Bonds Resolutions” means the resolutions of Metropolitan with respect to Metropolitan’s Waterworks Refunding Revenue Bonds, Issue of 1978; Metropolitan’s Waterworks Revenue Bonds, Issue of 1979; Metropolitan’s Waterworks Revenue Bonds, Issue of 1983; and Metropolitan’s Waterworks Refunding Revenue Bonds, Issue of 1986.

“Rating Agencies” means either or both of Moody’s Investors Service and Standard & Poor’s Ratings Services 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 Fund” means the Water Revenue Bonds, Redemption Fund established and maintained pursuant to the Senior Debt Resolution with respect to the Bonds.

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

“Resolutions” means, collectively, the Senior Debt Resolution as supplemented, modified or amended by each Supplemental Resolution.

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

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

“State” means the State of California.

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

“Supplemental Resolution” means any resolution duly adopted by Metropolitan, supplementing, modifying or amending the Senior Debt Resolution, in accordance with its provisions.

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

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

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

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

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

General

The Senior Debt Resolution authorizes the creation of "The Metropolitan Water District of Southern California Water Revenue Bonds," which Bonds may be issued in an unlimited principal amount, subject, however, to the limitations contained in the Metropolitan Water District Act and the Resolutions, and will be issued in Series pursuant to Supplemental Resolutions adopted under the terms and conditions provided in the Senior Debt Resolution.

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 the Senior Debt Resolution, 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 are surrendered for transfer, Metropolitan will execute and the Fiscal Agent for that Series will 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.

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 will require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

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 will at all times be open to inspection during normal business hours by Metropolitan; and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Senior Debt Resolution.

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, will be of such denomination as may be determined by Metropolitan, will be in registered form and may contain such reference to any of the provisions of the Senior Debt 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 will be executed by Metropolitan and authenticated by the Fiscal Agent upon the same conditions and in substantially the same manner as the definitive Bonds. If Metropolitan 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 will 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 will be entitled to the same benefits under

the Senior Debt Resolution as definitive Bonds authenticated and delivered under the Senior Debt Resolution.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, Metropolitan at the expense of the Owner of said Bond, will execute, and the Fiscal Agent for such Bond will 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 will be cancelled by it and destroyed. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to Metropolitan and the Fiscal Agent for that Bond and, if such evidence be satisfactory to both that Fiscal Agent and Metropolitan and indemnity satisfactory to them will be given, Metropolitan at the expense of the Owner, will execute, and that Fiscal Agent will 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 has matured or has 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). Metropolitan may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under the Senior Debt Resolution and of the expenses which may be incurred by Metropolitan and the Fiscal Agent in the premises. Any Bond issued under the provisions of the Senior Debt Resolution in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of Metropolitan whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Senior Debt Resolution with all other Bonds secured by the Senior Debt Resolution. Neither Metropolitan nor any Fiscal Agent will 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 under the Senior Debt Resolution or for the purpose of determining any percentage of Bonds Outstanding under the Senior Debt Resolution, but both the original and substitute Bond will be treated as one and the same.

Supplemental Resolutions; Additional Bonds

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

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

Redemption of Bonds

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

Redemption at the Direction of Metropolitan. In the case of any redemption of Bonds at the direction of Metropolitan, Metropolitan will select the series, maturities and principal amounts thereof to

be redeemed and the Treasurer will 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. Metropolitan will give such notice at least 15 Business Days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent for that Series may give notice of redemption to the Owners of the Bonds of that Series.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Senior Debt Resolution, the Bonds or portions thereof so called for redemption will become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, will be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there is drawn for redemption a portion of a Bond, Metropolitan will execute and the Fiscal Agent for that Bond will 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 dates, will be available therefor on said date and if notice of redemption has 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 will cease to accrue and become payable. If said moneys are not so available on the redemption date, such Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Revenues

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

Equality of Security. The Senior Debt Resolution constitutes a contract between Metropolitan and the Owners from time to time of the Bonds. The covenants and agreements set forth in the Senior Debt Resolution to be performed by or on behalf of Metropolitan will be for the equal and proportionate benefit, security and protection of all Owners of the Bonds, without preference, priority or distinction as to security

or otherwise of any Bond over any other Bond by reason of the Series, time of issue, sale or negotiation thereof or for any cause whatsoever, except as expressly provided therein or in the Senior Debt Resolution. Nothing in the Senior Debt Resolution prevents additional security being provided to particular Series of Bonds under any Supplemental Resolution.

Establishment of Funds and Accounts; Application. Metropolitan will establish, continue and maintain, as appropriate, in accordance with the terms of the Prior Lien Bonds Resolutions and of the Senior Debt Resolution, the following funds and accounts:

1. Water Revenue Fund (the "Water Revenue Fund");
2. Operation and Maintenance Fund (the "Operation and Maintenance Fund");
3. Water Revenue Bonds, Bond Service Fund (the "Bond Service Fund"); and
4. Revenue Remainder Fund (the "Revenue Remainder Fund"). All funds and accounts established or continued under the Senior Debt Resolution or by any Supplemental Resolution will be held by the Treasurer or, if applicable, a Fiscal Agent and will 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 the Senior Debt Resolution and any Supplemental Resolution.

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

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

(ii) Bond Service Fund. Upon delivery of the Bonds to the purchasers thereof, the amount specified pursuant to the Senior Debt Resolution will be placed in the Bond Service Fund.

As soon as practicable in each calendar month, following the transfers required by the Senior Debt Resolution, there will be set aside and transferred to the Bond Service Fund an amount equal to (A) (i) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment date for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Bond Service Fund from the proceeds of such Series of bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such account, (ii) 110 percent of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; provided, however, that the amount of such deposit into the Bond Service Fund for any month may be reduced by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into

the Bond Service Fund for any month will be increased by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness, and (iii) with respect to Outstanding Paired Obligations, such amount as will be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of Metropolitan for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, and (B) (i) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (ii) one-twelfth of the aggregate yearly amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the Board irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of a Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the Bond Service Fund, or, during said period and prior to giving said notice of redemption, Metropolitan has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Fund, such Term Bonds so purchased or deposited or redeemed will be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Bond Service Fund. All Term Bonds purchased from the Bond Service Fund or deposited by Metropolitan with the Fiscal Agent for such Series will be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of Metropolitan. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Fund will be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of Metropolitan.

No deposit need be made into the Bond Service Fund if (i) the amount contained therein is at least equal to the interest to become due and payable on the estimated interest payment dates falling within the next six months upon all of the Bonds issued under the Senior Debt Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates), and (ii) there is in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Senior Debt Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. If Metropolitan issues or incurs any Parity Obligations, the payments required to be placed in any debt service fund or sinking fund to pay the principal or Accreted Value of, or mandatory sinking fund payments or interest with respect to, such Parity Obligations will rank and be made on a parity with the payments required to be placed in the Bond Service Fund.

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

Bond Service Fund in connection with each Series of Bonds that exceeds the reasonable carry-over amount described above will be transferred to the Water Revenue Fund.

(iii) Reserve Funds. Metropolitan will deposit as soon as practicable in each calendar month in any reserve fund or account established under a Supplemental Resolution for a Series of Bonds and in any reserve fund or account established for any Parity Obligations, upon the occurrence of any deficiency therein, one-sixth (1/6th) of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve fund or account. If there will be a deficiency of Operating Revenues to make the deposits required by this paragraph, such Operating Revenues will be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency.

(iv) Excess Earnings Funds. Metropolitan will 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 required pursuant to the Supplemental Resolution or other document creating such account.

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

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

Application of Funds and Accounts. All amounts in the Bond Service Fund will be used and withdrawn by the Treasurer solely for the purposes of paying (i) interest on the Bonds as it will 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; and (ii) the Bond Obligation of the Bonds 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.

Notwithstanding the paragraph above, moneys in the Bond Service Fund may be applied to the purchase of Bonds maturing or subject to mandatory sinking fund redemption (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 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 Metropolitan, except that the purchase price (excluding accrued interest, in the case of current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this paragraph will be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

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

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

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

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent and established pursuant to the Senior Debt Resolution will 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 will 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 will 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 the Senior Debt 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 under the Senior Debt Resolution will be accounted for separately as required by the Senior Debt 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 will 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 will 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 will specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal Agent is to be allocated and will 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.

Covenants

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

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

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

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

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

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

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

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

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

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

Limits on Additional Debt. Except Refunding Bonds or Parity Obligations to the extent incurred to pay or discharge Outstanding Bonds or Parity Obligations and which do not result in an increase in the average annual debt service on all Bonds or Parity Obligations to be Outstanding after the issuance of such Refunding Bonds or Parity Obligations, no additional Bonds or Parity Obligations will be created or incurred unless:

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

Second: Either (i) the Net Operating Revenues as shown by the books and records of Metropolitan for the latest Fiscal Year or for any 12 consecutive month period within the last completed 24-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Obligations as set forth in a certificate of Metropolitan or (ii) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Water System financed with the proceeds of the additional Bonds or Parity Obligations is in operation as estimated by and set forth in a certificate of

Metropolitan, plus, at the option of Metropolitan, any or all of the items later in this covenant designated (a), (b), (c) and (d), have amounted to not less than 1.20 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds and Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional Bonds or Parity Obligations.

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

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

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

(c) Any Additional Revenues.

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

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

Nothing in the Senior Debt Resolution will limit the ability of Metropolitan to issue or incur obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Senior Debt Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations, as the same become due and payable and at the times and in the manner as required in the Senior Debt Resolution or any Parity Obligations documents.

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

The Fiscal Agent

Appointment; Duties of Fiscal Agent. Metropolitan 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 will act as the agent of Metropolitan and will perform such duties and only such duties as are specifically set forth in the Senior Debt Resolution or the Supplemental Resolution pursuant to which it was appointed and no implied covenants will be read into the Senior Debt Resolution or such Supplemental Resolution against the Fiscal Agent. Each Fiscal Agent will exercise such of the rights and powers vested in it by the Senior Debt Resolution or the Supplemental Resolution pursuant to which it was appointed.

Metropolitan may remove any Fiscal Agent at any time with or without cause and will remove any Fiscal Agent if at any time such Fiscal Agent ceases to be eligible in accordance with the Senior Debt Resolution, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of such Fiscal Agent or its property is appointed, or any public officer takes 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 will 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.

Each Fiscal Agent may at any time resign by giving 90 days written notice of such resignation to Metropolitan 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, Metropolitan will 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.

Any removal or resignation of a Fiscal Agent and appointment of a successor Fiscal Agent will become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent has been appointed and has 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 the Senior Debt Resolution, will signify its acceptance of such appointment by executing and delivering to Metropolitan and to its predecessor Fiscal Agent a written acceptance thereof, and thereupon such successor Fiscal Agent, without any further act, deed or conveyance, will become vested with all the rights, powers, duties and obligations of such predecessor Fiscal Agent, with like effect as if originally named Fiscal Agent in the Senior Debt Resolution. Upon request of the successor Fiscal Agent, Metropolitan and the predecessor Fiscal Agent will 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.

Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Senior Debt Resolution in succession to a Fiscal Agent will 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 will 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 will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor

will 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, Metropolitan will appoint a new Fiscal Agent, which may be the corporation resulting from such reorganization. In case at any time a Fiscal Agent ceases to be eligible in accordance with the provisions of the Senior Debt Resolution, such Fiscal Agent will resign immediately in the manner and with the effect specified in the Senior Debt Resolution.

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 under the Senior Debt Resolution, and if no successor Fiscal Agent be then appointed, all such duties and all of the rights and powers of such Fiscal Agent will be assumed by and vest in the Treasurer in trust for the benefit of the Bondholders of such Series.

Liability of Fiscal Agent. The recitals of facts in the Senior Debt Resolution, in the Supplemental Resolution pursuant to which a Fiscal Agent is appointed and in the Bonds of such Series contained will be taken as statements of Metropolitan, 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 the Senior Debt Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of the Senior Debt Resolution thereon, or as to the financial or technical feasibility of any Project and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Senior Debt Resolution or in the Bonds assigned to or imposed upon it. Each Fiscal Agent will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. A Fiscal Agent will not be liable in connection with the performance of its duties under the Senior Debt Resolution, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Senior Debt Resolution. 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 Metropolitan, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of Metropolitan and make disbursements for Metropolitan and enter into any commercial or business arrangement therewith, without limitation.

A Fiscal Agent will not be liable for any error of judgment made in good faith by a responsible officer unless it is 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 under the Senior Debt Resolution by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Senior Debt Resolution, but such Fiscal Agent will be answerable for the negligence or misconduct of any such attorney-in-fact, agent, or receiver selected by it; provided that such Fiscal Agent will not be answerable for the negligence or misconduct of any attorney-in-law, agent or receiver selected by it with due care.

No provision of the Senior Debt Resolution will 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 under the Senior Debt Resolution or under the Supplemental Resolution pursuant to which it was appointed, or in the exercise of its rights or powers.

A Fiscal Agent will not be required to ascertain, monitor or inquire as to the performance or observance by Metropolitan of the terms, conditions, covenants or agreements set forth in the Senior Debt Resolution or in the Supplemental Resolution pursuant to which it was appointed, other than the covenants of Metropolitan to make payments with respect to the Bonds when due as set forth in the Senior Debt

Resolution and to file with such Fiscal Agent when due, such reports and certifications as Metropolitan is required to file with each Fiscal Agent under the Senior Debt Resolution.

No permissive power, right or remedy (if any) conferred upon a Fiscal Agent under the Senior Debt Resolution will be construed to impose a duty to exercise such power, right or remedy.

A Fiscal Agent will 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 determines to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of Metropolitan, personally or by agent or attorney.

Whether or not therein expressly so provided, every provision of the Senior Debt Resolution relating to the conduct or affecting the liability of or affording protection to any Fiscal Agent will be subject to the provisions of the Senior Debt Resolution.

Right of Fiscal Agent to Rely on Documents. A Fiscal Agent will 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 Metropolitan, with regard to legal questions, and the written opinion of such counsel addressed to the particular Fiscal Agent will be full and complete authorization and protection in respect of any action taken or suffered by it under the Senior Debt Resolution in good faith and in accordance therewith unless it is proved that a Fiscal Agent was negligent in ascertaining the pertinent facts.

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

Amendments to Senior Debt Resolution

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

No such modification or amendment will (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 percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Operating Revenues and other assets pledged under the Senior Debt Resolution prior to or on a parity with the lien created by the Senior Debt Resolution, or deprive the Owners of the Bonds of the lien created by the Senior Debt Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Senior Debt 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 will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it will be sufficient if such consent approves the substance thereof. Promptly after the adoption by the Board of any Supplemental Resolution pursuant to the Senior Debt Resolution, the Fiscal Agent for each Series of Bonds that may be affected by any such modification or amendment will mail a notice provided by Metropolitan, 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, will not, however, in any way impair or affect the validity of any such Supplemental Resolution.

The Senior Debt Resolution and the rights and obligations of Metropolitan, of each Fiscal Agent and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Resolution, which the Board may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of Metropolitan to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon Metropolitan, in each case which will 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 the Senior Debt Resolution or in regard to matters or questions arising under the Senior Debt Resolution, as the Board may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of any of the Bonds, (3) to modify, amend or supplement the Senior Debt Resolution to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of the Bonds, (4) to provide for the issuance of a Series of Bonds with such interest rate, payment, maturity and other terms as Metropolitan may deem desirable, subject to certain limitations under the Senior Debt Resolution with respect to the issuance of Bonds, (5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision will materially and adversely affect interests of the Owners of any of the Bonds, (6) if Metropolitan 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.

Effect of Supplement Resolution. From and after the time any Supplemental Resolution becomes effective pursuant to the Senior Debt Resolution, the Senior Debt Resolution will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Senior Debt Resolution of Metropolitan, each Fiscal Agent and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced under the Senior Debt Resolution subject in all respects to such

modification and amendment, and all the terms and conditions of any such Supplemental Resolution will be deemed to be part of the terms and conditions of the Senior Debt Resolution for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after any Supplemental Resolution becomes effective pursuant to the Senior Debt Resolution may, and if a Fiscal Agent so determines will, 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 will be made on such Bond. If a Supplemental Resolution so provides, 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, will be prepared and executed by Metropolitan and authenticated by such Fiscal Agent, and upon demand of the Owners of any Bonds then outstanding will 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.

Amendment of Particular Bonds. The provisions of the Senior Debt Resolution will not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Defeasance

Discharge of Senior Debt Resolution. Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by Metropolitan in any of the following ways: (a) by paying or causing to be paid the Bond Obligations of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable; (b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or (c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

If Metropolitan pays 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 under the Senior Debt Resolution by Metropolitan, then and in that case, at the election of Metropolitan (evidenced by a Certificate of Metropolitan, filed with each Fiscal Agent, signifying the intention of Metropolitan to discharge all such indebtedness and the Senior Debt Resolution), and notwithstanding that any Bonds have not been surrendered for payment, the Senior Debt Resolution and the pledge of Net Operating Revenues and other assets made under the Senior Debt Resolution and all covenants, agreements and other obligations of Metropolitan under the Senior Debt Resolution will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of Metropolitan, the Treasurer will cause an accounting for such period or periods as Metropolitan may request to be prepared and filed with Metropolitan and will cause to be executed and delivered to Metropolitan all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

Discharge of Liability on Bonds. Upon the deposit with the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Senior Debt Resolution) 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 has been given as provided in the Senior Debt Resolution or provision satisfactory to such Fiscal Agent has been made for the giving of such

notice, then all liability of Metropolitan in respect of such Bond will cease, terminate and be completely discharged; provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and Metropolitan will 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 the Senior Debt Resolution and the continuing duties of the Fiscal Agent for such Series under the Senior Debt Resolution. Upon defeasance and discharge of any Bond as provided in the Senior Debt Resolution, the Fiscal Agent will provide notice thereof to the Owner of such Bond.

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

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 the Senior Debt 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 the Senior Debt Resolution and will 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 has been given as provided in the Senior Debt Resolution or provision satisfactory to the Fiscal Agent for such Series has been made for the giving of such notice, the amount to be deposited or held will be the Bond Obligation or Redemption Price of such Bonds and 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 has been given as provided in the Senior Debt Resolution or provision satisfactory to the Fiscal Agent for such Series has been made for the giving of such notice; provided, in each case, that the Fiscal Agent for such Series has been irrevocably instructed (by the terms of the Senior Debt Resolution or by Request of Metropolitan) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to the Bonds.

Payment of Bonds After Discharge of the Senior Debt Resolution. Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in the Senior Debt 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, will, upon Request of Metropolitan, be released from the trusts created by the Senior Debt 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 will thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of Metropolitan) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys

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

Defaults and Remedies

Events of Default. Each of the following events will be an “Event of Default”: (a) default by Metropolitan in the due and punctual payment of the principal of, premium, if any, or Accreted Value of any Bond (whether at maturity, by acceleration, call for redemption or otherwise); (b) default by Metropolitan in the due and punctual payment of the interest on any Bond; (c) failure of Metropolitan to observe and perform any of its other covenants, conditions or agreements under the Senior Debt Resolution or in the Bonds for a period of 90 days after written notice from the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of Metropolitan to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence; (d) (1) failure of Metropolitan generally to pay its debts as the same become due, (2) commencement by Metropolitan of a voluntary case under the Federal bankruptcy laws, as now or later constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by Metropolitan to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for Metropolitan, the Water System or any substantial part of Metropolitan’s property, or to the taking possession by any such official of the Water System or any substantial part of Metropolitan’s property, (4) making by Metropolitan of any assignment for the benefit of creditors, or (5) taking of corporate action by Metropolitan in furtherance of any of the foregoing; (e) the entry of any (1) decree or order for relief by a court having jurisdiction over Metropolitan or its property in an involuntary case under the Federal bankruptcy laws, as now or later constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for Metropolitan, the Water System or any substantial part of Metropolitan’s property, or (3) order for the termination or liquidation of Metropolitan or its affairs; or (f) failure of Metropolitan within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions of clause (c) above are subject to the limitation that if by reason of force majeure Metropolitan is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Senior Debt Resolution, Metropolitan will not be deemed in default during the continuance of such disability. The term “force majeure” as used in the Senior Debt Resolution will 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; epidemics; landslides; lightning; earthquakes; fires; riots; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people, civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of Metropolitan. Metropolitan will, 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 will be entirely within the discretion of

Metropolitan, and Metropolitan will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

Bondholders' Committee. If an Event of Default has occurred and is 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) will prescribe the manner in which the successors of the persons elected to the Bondholders' Committee will be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it in the Senior Debt Resolution, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and is empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Senior Debt Resolution on any Owner, provided, however, that whenever any provision thereof requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Senior Debt Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either will have been elected by or their election will have been approved by or concurred in, and such committee will 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, will be filed with the Authorized Representative.

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

Receiver. Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding will be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues

thereafter arising therefrom in the same manner as Metropolitan itself might do. No bond will be required of such receiver.

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 contained in the Senior Debt Resolution. No remedy conferred by the Senior Debt Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy will be cumulative and will be in addition to any other remedy given to the Bondholders thereunder or now or later 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 will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or Event of Default under the Senior Debt Resolution by the Owners will extend to or will affect any subsequent default or Event of Default or will impair any rights or remedies consequent thereon.

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

Miscellaneous

Liability of Metropolitan Limited to Net Operating Revenues. Notwithstanding anything in the Senior Debt Resolution or in the Bonds contained, Metropolitan will not be required to advance any moneys derived from any source other than the Net Operating Revenues and other money, assets and security pledged under the Senior Debt Resolution for any of the purposes in the Senior Debt 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 the Senior Debt Resolution.

The general fund of Metropolitan 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 Metropolitan pledged for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any Bond will not compel the exercise of the taxing power by Metropolitan 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 Metropolitan 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.

Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by the Senior Debt Resolution to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and will 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, will be sufficient for any purpose of the Senior Debt Resolution and will be conclusive in favor of the Fiscal Agent for such Series and of Metropolitan if made in the manner provided in the Senior Debt Resolution.

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 will 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 of such Series will 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 Metropolitan in accordance therewith or reliance thereon.

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 the Senior Debt Resolution, Bonds which are owned or held by or for the account of Metropolitan, 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, Metropolitan or any other obligor on the Bonds (except for any remarketing or other underwriting agent), will 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 the Senior Debt Resolution if the pledgee establishes 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, Metropolitan 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 will be full protection to such Fiscal Agent.

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) will, on and after such date and pending such payment, be set aside on Metropolitan's books and held in trust by the Treasurer for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Senior Debt Resolution.

Proceedings Constitute Contract. The provisions of the Senior Debt Resolution will constitute a contract between Metropolitan and the Bondholders of such Bonds, and the provisions of the Senior Debt Resolution and thereof will 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 later be authorized under the laws of the State in any court of competent jurisdiction.

No remedy conferred by the Senior Debt Resolution 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 will affect any subsequent default or breach of duty or contract or will 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 will impair any such right or power or will 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 will be brought or taken and the Bondholder prevails, said Bondholder will 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, Metropolitan and the Bondholder will 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, the Senior Debt Resolution will be irrepealable, but will be subject to modification to the extent and in the manner provided in the Senior Debt Resolution, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Senior Debt Resolution will be deemed to restrict or prohibit Metropolitan from making contracts or creating bonded or other indebtedness payable from the general fund of Metropolitan, 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 Metropolitan will not include the Net Operating Revenues and no contract or other obligation payable from the general fund of Metropolitan will be payable from the Net Operating Revenues, except as provided in the Senior Debt Resolution.

Waiver of Personal Liability. No Board member, officer, agent or employee of Metropolitan or any Fiscal Agent will 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 contained in the Senior Debt Resolution will relieve any such Board member, officer, agent or employee of Metropolitan or any Fiscal Agent from the performance of any official duty provided by law or by the Senior Debt Resolution.

Governing Law. The Senior Debt Resolution will be construed and governed in accordance with the laws of the State of California.

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 will become due or will be made on the next succeeding Business Day and no interest will accrue for such period.

APPENDIX E

SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA

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APPENDIX E

SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA

This Appendix E has been prepared by the Center for Continuing Study of the California Economy (“CCSCE”). Forward looking statements are those of the CCSCE. Neither the CCSCE nor Metropolitan is obligated to issue any updates or revisions to the data set forth in this Appendix E.

General

The map contained in the body of the Official Statement or Remarketing Statement to which this Appendix E is attached shows the area served by Metropolitan. It includes parts of six of the ten counties that comprise Southern California. The area served by Metropolitan represents the most densely populated and heavily industrialized portions of Southern California.

In this Appendix E, the economy of the area served by Metropolitan is generally described in terms of data for the area consisting of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties (“Six County Area”). Although these counties comprise Metropolitan’s service area, Metropolitan’s territory does not encompass all of the area within each of the six counties. In 2019, the economy of the Six County Area was larger than all but twelve nations of the world. The Six County Area economy ranked between South Korea (\$1.642 trillion) and Spain (\$1.394 trillion), with an estimated gross domestic product (“GDP”) of \$1.596 trillion. The Six County Area’s gross domestic product in 2019 was larger than all U.S. states except California, Texas and New York.

RANKING OF AREAS BY GROSS DOMESTIC PRODUCT (Dollars in Billions) 2019

United States	\$21,433
China	14,343
Japan	5,082
Germany	3,846
California	3,133
India	2,875
United Kingdom	2,827
France	2,716
Italy	2,001
Texas	1,844
Brazil	1,840
New York	1,772
Canada	1,736
Russian Federation	1,658
South Korea	1,642
Six County Area	1,596
Spain	1,394
Australia	1,393
Mexico	1,258

Source: Countries—World Bank; U.S.—Bureau of Economic Analysis; California and Six County Area—U.S. Department of Commerce

Summary of Recent Trends and Outlook for the Six County Area Economy

This appendix has two main sections. One section, starting on page 8, presents Six County Area data through the end of 2019 or the latest date for which comparable annual data is available. The second section, starting on page 3, presents data available in mid-April 2021 for the impacts of the COVID-19 pandemic on the national, state and Six County Area economies.

There are a number of events in recent months that support the outlook for faster growth in the national and Six County Area economy. Congress approved a \$1.9 trillion COVID-related spending plan and these funds have begun to be distributed to residents, businesses and local governments. The Federal Reserve Bank has committed to keep the federal funds rate at current low levels for at least the rest of 2021. Three coronavirus vaccines have been approved and as of mid-April an average of over 3 million doses are being given to residents daily according to the Center for Disease Control and Prevention (CDC).

On the basis of these events, forecasts of national economic growth are being revised upwards. The U.C.L.A. Anderson School economic forecast released in March 2021 has GDP growing by 6.3% in 2021 and 4.6% in 2022. The same forecast sees increased job growth and reduced unemployment rates in California for 2021, 2022 and 2023. Job growth in the state is forecast to outpace national growth rates while the state's unemployment rate, while declining, is forecast to remain above the national rate. The forecast has 4.1% and 3.1% for job growth in California in 2021 and 2022 compared to 3.6% and 2.9% for the nation.

Job growth in the Six County Area after February 2020 was restrained by reopening restrictions that were stricter than throughout the nation and by large job losses in tourism and motion picture production sectors that have a high concentration in the Six County Area. These major causes of slow job growth are related to the coronavirus pandemic and are temporary and will be eliminated over time once the pandemic is under control.

Through March 2021 the Six County Area had recovered 37.3% of the jobs lost between February and April of 2020. This is below the 43.2% recovery for the state the 62.4% job recovery in the nation. The Six County Area economy made substantial recovery gains in February and March 2021 as coronavirus cases, deaths and hospitalizations improved in the region, the number of vaccinations accelerated and activity restrictions were lifted. The Six County Area added 144,100 jobs between January and March 2021. The April and May 2021 data should also show large job gains as many businesses, tourist attractions, such as Disneyland, and sports venues have recently reopened to limited capacity or have announced reopening dates in April and May.

The Six County Area slightly outpaced the nation in nonfarm wage and salary job growth from the beginning of 2013 through the end of 2019. By December 2019 job levels were 934,600 or 10.7% above the pre-recession peak level in July 2007. Job growth for the entire Six County Area in 2019 was 127,600 jobs or a gain of 1.3% compared to a 1.4% increase in jobs for the state and nation for the comparable period. In 2019, unemployment rates ranged from a low of 2.9% in Orange County to a high of 4.4% in Los Angeles County. Unemployment rates declined from 2018 levels in all Six County Area counties.

Over the longer term, international trade has been a leading growth sector in the Six County Area. Container volume rose 79% between 2000 and 2019 despite a 3.3% decline in 2019 as a result of tariff increases. Trade gains support job growth in warehousing, wholesale trade and trucking particularly in the Riverside-San Bernardino county area. In 2019, the Six County Area accounted for \$10.3 billion in new venture capital funding (a record high level) behind the New York metro and ahead of New England. Air passenger travel at the major airports in the Six County Area reached record levels in 2019 up 2.0% over 2018 to 135.5 million trips led by gains at Burbank, Ontario and San Diego airports.

Population growth averaged 115,400 between 2010 and 2020 according to the California Department of Finance (DOF) estimates, and growth slowed in the past five years and declined by 12,500 in 2020. The Six County Area had 22.2 million residents in 2020, approximately 56% of the State's population. Income, taxable sales and assessed valuation in the Six County Area have increased since 2013 along with record levels in foreign trade and film permits. At the end of 2019, gains in income, taxable sales and assessed valuation outpaced the growth in consumer price indices in the Six County Area all of which helped local government revenue growth.

Long-term job growth is driven by the Six County Area's economic base—those sectors that sell most of their goods and services in national and world markets outside of the Six County Area. Recent projections by CCSCE, SCAG and SANDAG report that the Six County Area will see job growth that slightly exceeds the national average during the next 10 to 30 years, led by gains in Professional and Business Services, Wholesale Trade, Information and the tourism component of Leisure and Hospitality.

Data on the Economic Impact of the COVID-19 Virus Through April 2021

The U.S. and Six County Area economies had job losses and unemployment rate increases in 2020 associated with activity restrictions related to the coronavirus pandemic. Both economies have begun to recover in 2021 as virus cases, hospitalizations and deaths have decreased. In March 2021 the national economy added 916,000 jobs and the unemployment rate fell to 6.0%. The Institute of Supply Management (ISM) purchasing managers index for manufacturing rose to 64.7—the tenth straight increase and their comparable index for the service sector rose to 63.7. Readings over 50 indicate sector growth.

The U.S economy has recaptured a substantial amount of the losses in jobs, unemployment and labor force in March 2021, though levels remain below pre-pandemic peaks. The economy recovered 62% of the jobs lost between February and April 2020 and 78% of the increase in the national unemployment rate was reversed in March 2021. The U-6 unemployment rate shown below, which includes people working part-time but wanting full-time work and those marginally attached (not currently in the labor force but wanting to work), was 10.9% in March 2021 down from 22.8% in April 2020 but still well above the 7.0% rate in February 2020. Of note, 3.8 million residents left the workforce between February 2020 and March 2021 and were not counted in the unemployment statistics.

RECENT EMPLOYMENT TRENDS (Non-Farm Wage and Salary Jobs and Labor Force in Millions)

	Feb 20	Apr 20	Mar 21	% Recovered
Jobs	152.5	130.3	144.1	62%
Unemployment rate	3.5%	14.8%	6.0%	78%
U-6 unemployment rate	7.0%	22.8%	10.9%	75%
Labor Force	164.4	156.5	160.6	52%

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

There are a number of events in recent months that support the outlook for faster growth in the national and Six County Area economy. Congress approved a \$1.9 trillion COVID-related spending plan and these funds have begun to be distributed to residents, businesses and local governments. The Federal Reserve Bank has committed to keep the federal funds rate at current low levels for at least the rest of 2021. Three coronavirus vaccines have been approved and as of mid-April an average of over 3 million doses are being given to residents daily according to the Center for Disease Control and Prevention (CDC).

On the basis of these events, forecasts of national economic growth are being revised upwards. A range of recent national forecasts are shown in the table on the following page. The Congressional Budget Office (CBO) forecast was released February 1, 2021 before the \$1.9 trillion spending program and vaccine ramp up happened while the other forecasts were published in March 2021. The International Monetary Fund (IMF) forecast looked at the global economy but did contain partial forecasts for the U.S.

U.S. ECONOMIC FORECAST

	<u>2021</u>	<u>2022</u>	<u>2023</u>
GDP Growth			
UCLA (3/21)	6.3%	4.6%	2.7%
IMF (3/21)	6.4%	3.5%	--
Conference Board (3/21)	5.5%	--	--
CBO (2/21)	4.6%	2.9%	2.7%
Unemployment Rate			
UCLA (3/21)	5.6%	4.4%	3.8%
IMF (3/21)	5.8%	4.1%	--
Conference Board (3/21)	5.7%	5.0%	4.7%
CBO (2/21)			
Job Growth			
UCLA (3/21)	3.6%	2.9%	1.7%

Source: Congressional Budget Office (CBO) and International Monetary Fund (IMF)

The Six County Area suffered substantial job losses and increases in unemployment rates in 2020. Job levels fell by 768,100 (8.0%) and the Six County Area unemployment rate rose from 4.0% in 2019 to 10.9% in 2020. These job losses and unemployment rate increases were larger than in the nation as a result of the more stringent activity restrictions in the Six County Area.

RECENT EMPLOYMENT TRENDS (Non-Farm Wage and Salary Jobs in Thousands)

	<u>2019</u>	<u>2020</u>	<u>% Change</u>	Unemployment Rate	
				<u>2019</u>	<u>2020</u>
Los Angeles	4,561.6	4,146.7	-9.1%	4.6%	12.8%
Orange	1,673.5	1,524.7	-8.9%	2.8%	8.8%
Riverside-San Bernardino	1,552.1	1,487.8	-4.1%	4.1%	9.7%
San Diego	1,503.2	1,385.3	-7.8%	3.3%	9.2%
Ventura	312.8	290.6	-7.1%	3.7%	8.6%
Total Six County Area	9,603.2	8,835.1	-8.0%	4.0%	10.9%

Source: California Employment Development Department (EDD)

The first wave of job losses occurred in March 2020 and accelerated in April 2020. The Six County Area saw a decline in jobs of nearly 1.6 million or 16.2% between February and April 2020. The first waves of job losses were concentrated in the Leisure and Hospitality sector that includes amusement parks, hotels and restaurants. The Six County Area economy made substantial recovery gains in February and March 2021 as coronavirus cases, deaths and hospitalization rates improved in the region, the number of vaccinations accelerated and activity restrictions were lifted.

The Six County Area added 144,100 jobs between January and March 2021. The April and May 2021 data should show large job gains also as many businesses, tourist attractions, such as Disneyland, and sports venues have recently reopened to limited capacity or have announced reopening dates in April and May.

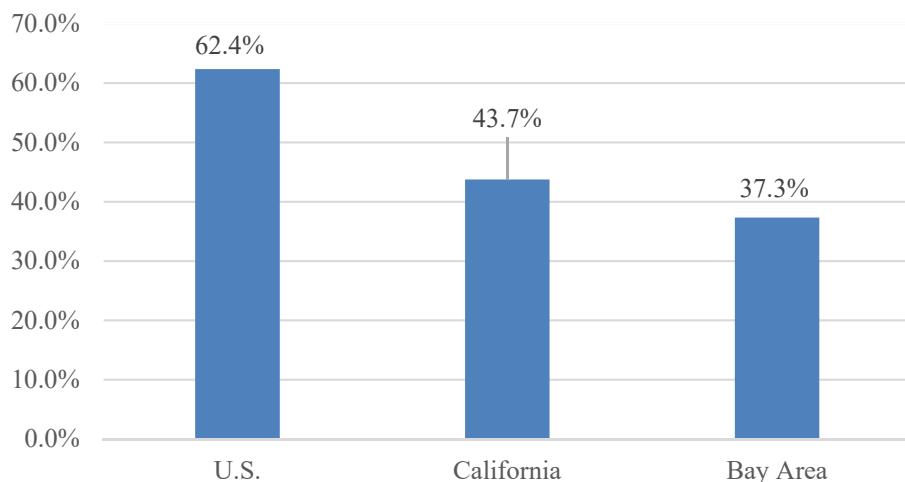
RECENT EMPLOYMENT TRENDS
(Non-Farm Wage and Salary Jobs in Thousands)

	<u>Feb 20</u>	<u>April 20</u>	<u>Jan 21</u>	<u>Mar 21</u>	<u>Change Jan-Mar</u>	<u>% recovered</u>
Los Angeles	4,622.8	3,850.3	4,046.9	4,097.8	50.9	32.0%
Orange	1,688.7	1,411.9	1,492.1	1,522.9	30.8	40.1%
Riv.-San Ber.	1,589.0	1,366.7	1,482.5	1,511.8	29.3	65.3%
San Diego	1,522.8	1,268.6	1,364.6	1,396.0	31.4	50.1%
Ventura	317.0	265.8	286.4	288.1	1.7	43.6%
Six County Area	9,740.3	8,163.3	8,672.5	8,816.6	144.1	41.4%
Seasonally adjusted EDD						

Source: California Employment Development Department (EDD); data are seasonally adjusted

Through March 2021 the Six County Area had recovered 37.3% of the jobs lost between February and April of 2020. This is below the 43.7% recovery for the state and the 62.4% job recovery in the nation.

Jobs Recovered by March 2021 as % of Losses



Source: U.S. Department of Labor and the California Employment Development Department (EDD)

The job recovery rate in the Six County Area was restrained by the more severe reopening restrictions in California and the above average concentration of tourism and motion picture production jobs in the Six County Area. These trends are shown below in the job recovery rates for major industry sectors in the Six County Area. Note that data in this table are not seasonally adjusted.

Job levels increased between January and March 2021 and that increase should continue in the coming months as activity restrictions are being reduced or eliminated. The largest gains (109,200 jobs) were in the Leisure and Hospitality sector concentrated in the restaurant sector with smaller gains from amusement park reopenings. The transportation and warehousing sector added jobs during the pandemic from the increase in online shopping and the strong port activity. Motion picture production, including TV and commercial production, added jobs in February and March 2021 after a long period of restricted activity. Government sector jobs fell after April 2020 but should begin now to recover with school reopenings and the infusion of billions of dollars in federal stimulus funding.

SIX COUNTY AREA JOB TRENDS BY SECTOR

	<u>Feb 20</u>	<u>April 20</u>	<u>Jan 21</u>	<u>Mar 21</u>	<u>Jan-Mar 21</u>	<u>% Recovered Mar 21-April 20</u>
Construction	470,100	403,400	452,900	453,800	900	75.6%
Manufacturing	741,600	660,100	672,500	679,600	7,100	23.9%
Wholesale Trade	422,500	367,700	389,800	392,900	3,100	46.0%
Retail Trade	919,100	731,400	874,200	872,100	-2,100	75.0%
Transp. & Wareh.	415,600	383,700	442,400	451,200	8,800	211.6%
Information	305,100	229,900	231,200	238,400	7,200	11.3%
Financial Activities	482,400	450,700	455,100	454,600	-500	12.3%
Prof& Bus Serv.	1,444,600	1,268,300	1,329,300	1,361,600	32,300	52.9%
Educ & Health Serv.	1,638,200	1,472,300	1,547,700	1,569,300	21,600	58.5%
Leisure & Hosp.	1,188,900	651,300	722,300	831,500	109,200	33.5%
Government	1,329,800	1,293,800	1,217,900	1,226,400	8,500	-187.2%
Total Non-Farm	9,720,700	8,161,400	8,603,100	8,816,100	213,000	42.0%

Includes sectors not shown and data not seasonally adjusted

Source: EDD

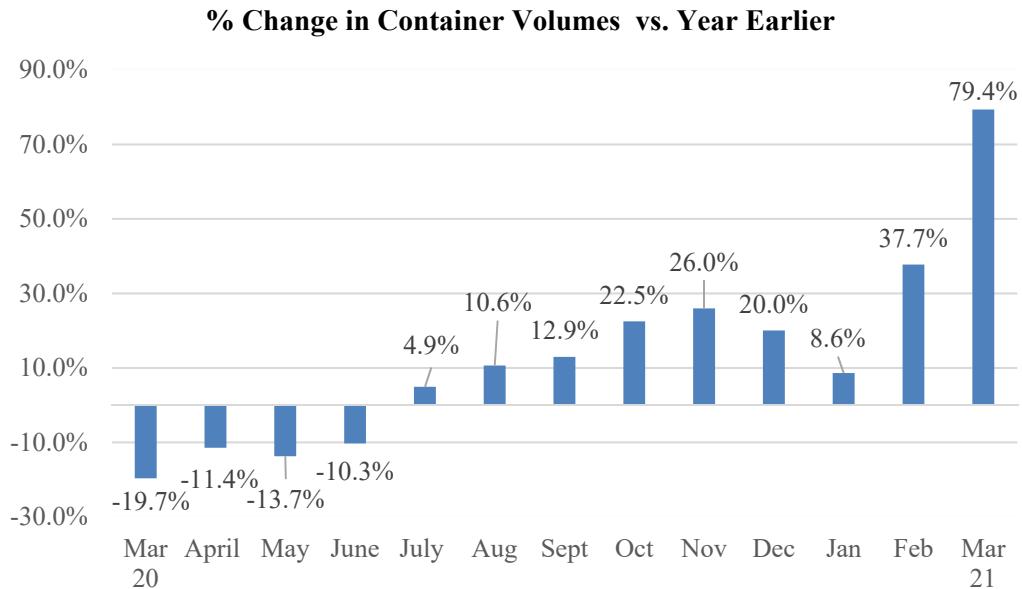
Unemployment rates increased in March and April 2020 throughout the Six County Area. By March 2021 unemployment rates had declined but remained above February 2020 levels in each of the Six County Area metro areas.

UNEMPLOYMENT RATES

	<u>Feb 20</u>	<u>April 20</u>	<u>Jan 21</u>	<u>Mar 21</u>	<u>Mar 21</u>	<u>% Chg Feb 20-Mar 21</u>
Los Angeles	4.7%	18.2%	12.7%	10.9%	6.2%	
Orange	2.8%	14.4%	7.3%	6.4%	3.6%	
Riverside-San Bernardino	3.9%	15.2%	8.6%	7.7%	3.8%	
San Diego	3.2%	15.9%	8.0%	6.9%	3.7%	
Ventura	3.7%	13.9%	7.4%	6.4%	2.7%	

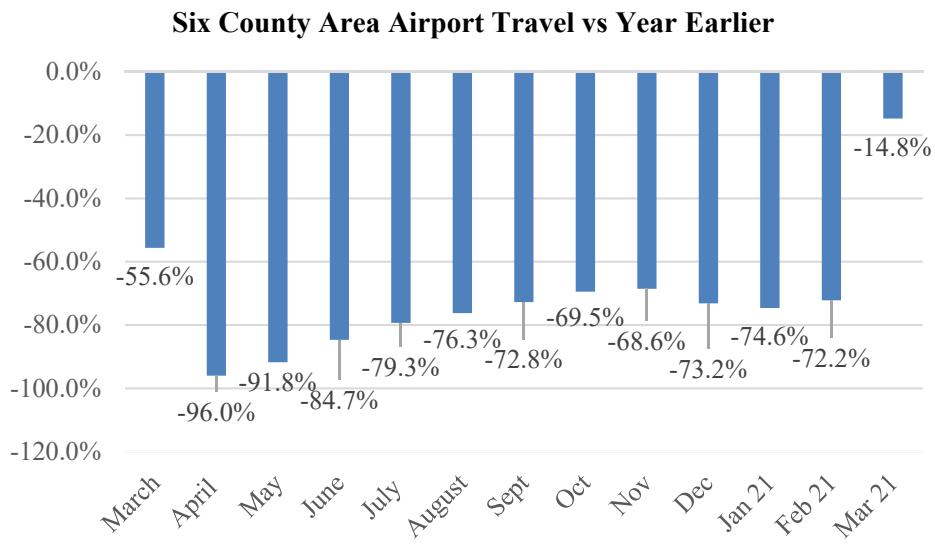
Source: EDD

The ports of Los Angeles and Long Beach reported declines in container volumes for the first six months of 2020 from the corresponding months in 2019. Part of the decline was attributable to the increase in tariff duties. However, from July 2020 through March 2021 container volumes has risen compared to a year earlier despite slow economic growth. There was a surge in volumes in February and March 2021 as the economic outlook improved and the ports saw record container volumes in the first quarter of 2021.



Source: Ports of Los Angeles and Long Beach websites

Airport travel in the Six County Area was down by 2/3 or more in every month from April 2020 through February 2021. Airport travel began to recover more in March 2021 with 2.6 million passengers compared to 1.6 million in February 2021. The March 2021 travel volume was the highest since 3.3 million in March 2020 that includes 2 weeks before travel restrictions were increased. Tourist attractions such as Disneyland are reopening with partial capacity as are sports venues.



Source: Airport websites

The U.C.L.A. Anderson School economic forecast released in March 2021 forecasts increased job growth and reduced unemployment rates in California for 2021, 2022 and 2023. Job growth in the state is forecast to outpace national growth rates while the state's unemployment rate, while declining, is forecast to remain above the national rate.

UCLA ECONOMIC FORECASTS
March 2021

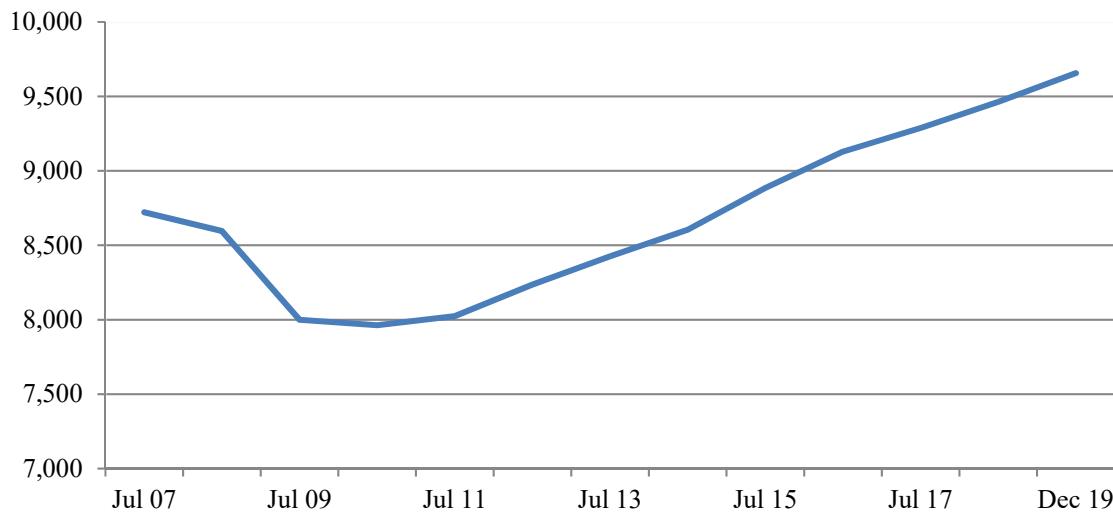
	<u>2021</u>	<u>2022</u>	<u>2023</u>
Job Growth			
California	4.1%	3.1%	2.3%
U.S.	3.6%	2.9%	1.7%
Unemployment Rate			
California	6.8%	5.1%	4.1%
U.S.	5.6%	4.4%	3.8%

The following pages describe historical economic trends in the Six County Area. As noted above, this section reflects data through the end of 2019 and therefore does not incorporate any impacts of the COVID-19 pandemic discussed in the preceding pages.

Six County Area Job Growth Trends Through 2019

The Six County Area moved from substantial job losses during the recession to sustained job growth during the 7 years from 2013 through 2019. (See the following figure). The Six County Area slightly outpaced the nation in nonfarm wage and salary job growth since the beginning of 2013. By December 2019 job levels were 934,600 or 10.7% above the pre-recession peak level in July 2007.

Six County Area Nonfarm Wage & Salary Jobs (Thousands)



Source: EDD; data are seasonally adjusted

Job growth for the entire Six County Area in 2019 was 138,000 jobs or a gain of 1.5% compared to a 1.5% increase in jobs for the state and 1.4% for the nation for the comparable period.

Job growth was aided by gains in foreign trade, tourism and professional services as well as a rebound in construction and related sectors and continuing growth in health care and food services.

EMPLOYMENT TRENDS THROUGH 2019
(Non-Farm Wage and Salary Jobs in Thousands)

	<u>2007</u>	<u>2010</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Los Angeles	4,255.4	3,926.7	4,449.2	4,516.1	4,561.6
Orange	1,525.6	1,372.1	1,619.2	1,651.8	1,673.5
Riverside-San Bernardino	1,290.3	1,151.5	1,452.8	1,506.0	1,552.1
San Diego	1,322.2	1,240.5	1,452.3	1,482.2	1,503.2
Ventura	298.9	276.1	305.4	309.1	312.8
Total Six County Area	8,692.4	7,966.9	9,278.9	9,465.2	9,603.2

Source: California Employment Development Department (EDD)

Unemployment rates in the Six County Area declined sharply between 2010 and 2019. (See the following table). In 2019, unemployment rates ranged from a low of 2.8% in Orange County to a high of 4.6% in Los Angeles County. Unemployment rates declined from 2018 levels in all Six County Area counties.

UNEMPLOYMENT RATES

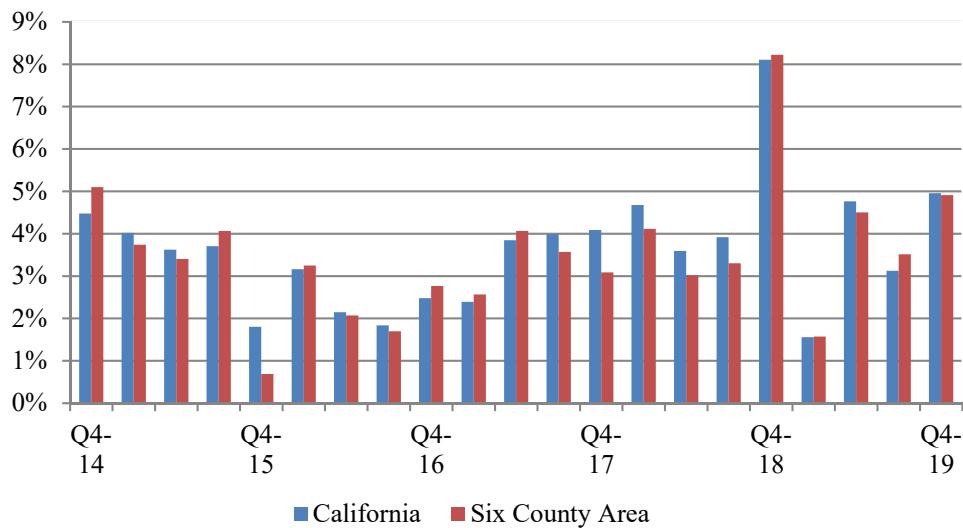
	<u>2000</u>	<u>2006</u>	<u>2010</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Los Angeles County	5.4%	4.8%	12.5%	4.8%	4.7%	4.6%
Orange County	3.5%	3.4%	9.7%	3.5%	3.0%	2.8%
Riverside County	5.4%	5.0%	13.8%	5.3%	4.5%	4.2%
San Bernardino County	4.8%	4.8%	13.5%	5.0%	4.1%	3.9%
San Diego County	3.9%	4.0%	10.8%	4.0%	3.4%	3.3%
Ventura County	4.5%	4.3%	10.8%	4.5%	3.8%	3.7%
United States	4.0%	4.6%	9.6%	4.4%	3.9%	3.7%
State of California	4.9%	4.9%	12.2%	4.8%	4.3%	4.2%

Source: U.S. Bureau of Labor Statistics and EDD

Taxable Sales and Income

The Six County Area accounts for 55% of statewide taxable sales and the pattern of growth is similar to the state average. Taxable sales have grown more slowly than personal income as a higher share of spending is on services and other non-taxable items. Taxable sales growth accelerated in 2019 as shown below reflecting strong income growth in the Six County Area.

Change in Taxable Sales From Year Earlier



Source: California Board of Equalization

As of the end of 2019, taxable sales in the Six County Area had rebounded from 2010 levels and all the recession losses had been recovered, helping local government revenues. Taxable sales rose faster than inflation in all counties in each year from 2010 through 2019. Taxable sales in the Six County Area increased in 2019 by 3.7% while the consumer price index increased by 2.0%.

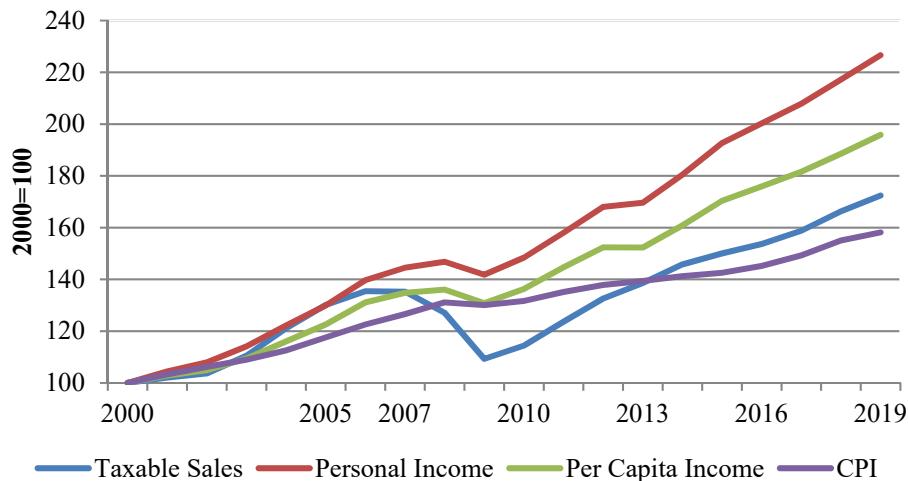
TAXABLE SALES (Dollars in Billions)

	<u>2000</u>	<u>2006</u>	<u>2010</u>	<u>2018</u>	<u>2019</u>	% Change <u>2000 - 19</u>	% Change <u>2006 - 19</u>
Los Angeles County	\$106.7	\$136.2	\$116.9	\$166.0	\$172.3	61%	27%
Orange County	44.5	57.2	47.7	67.5	69.7	57%	22%
Riverside County	17.0	29.8	23.2	38.9	40.6	139%	36%
San Bernardino County	18.9	31.3	24.7	40.6	41.8	121%	34%
San Diego County	36.2	47.8	41.6	59.0	61.4	70%	28%
Ventura County	9.1	12.3	10.2	14.3	14.8	63%	20%
Total Six County Area	<u>\$232.4</u>	<u>\$314.6</u>	<u>\$264.3</u>	<u>\$386.3</u>	<u>\$400.6</u>	72%	27%
Los Angeles Area Consumer Price Index (1982-84 = 100.0)	171.6	210.4	225.9	266.0	271.4	58%	29%

Source: Taxable Sales—California Board of Equalization, Consumer Price Index—U.S. Bureau of Labor Statistics

Total personal income reached a record \$1.35 trillion in 2019 in the Six County Area. Per capita personal income reached a record level of \$60,362 in 2019 and the gain in per capita income between 2000 and 2019 far exceeded the increase in consumer prices. Taxable sales growth kept pace with total income growth through 2005 but lagged far behind income for the period from 2000 through 2019, although it exceeded the increase in consumer prices as shown in the following chart. The growth in income and taxable sales is expected to outpace the increase in consumer prices for most future years.

Growth in Taxable Sales, Income and Consumer Prices in Six County Area



Sources: California Board of Equalization, U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

Construction Activity Through 2019

Residential building permit levels in the Six County Area declined sharply after 2004 falling from 108,322 to 17,932 units in 2009. Permit levels rebounded since 2009 reaching 59,444 in 2017 before declining to 55,135 units in 2019. Permit levels declined 2.2% in 2019 compared to 2018. Multi-family residential permits are the majority in Los Angeles, Orange and San Diego counties while most permits in Riverside and San Bernardino are for single family homes. Projected long-term job and population growth will support a much higher level of residential construction than is currently occurring. State and regional policies that would make housing easier to build are under discussion.

RESIDENTIAL BUILDING PERMITS

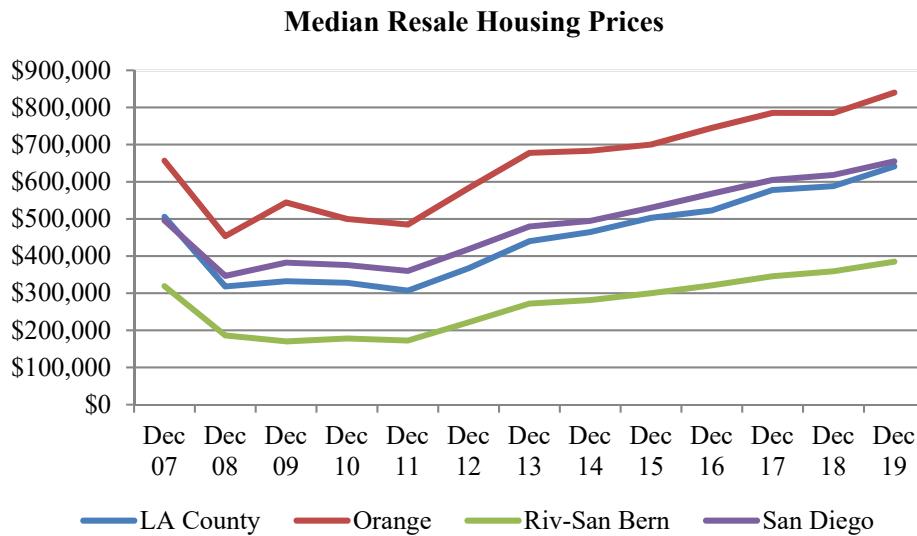
	<u>2004</u>	<u>2009</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Los Angeles County	26,395	5,653	20,369	22,479	23,222	21,622
Orange County	9,322	2,200	12,134	10,294	8,105	10,294
Riverside County	34,226	4,190	6,701	7,335	9,168	8,361
San Bernardino County	18,470	2,495	3,872	6,831	5,086	5,980
San Diego County	17,306	2,990	10,100	10,016	9,570	7,450
Ventura County	<u>2,603</u>	<u>404</u>	<u>1,663</u>	<u>2,489</u>	<u>1,249</u>	<u>1,428</u>
Total Six County Area	<u>108,322</u>	<u>17,932</u>	<u>54,839</u>	<u>59,444</u>	<u>56,400</u>	<u>55,135</u>

Source: Construction Industry Research Board and California Homebuilding Foundation

Housing Price and Affordability Trends in the Six County Area Economy

The housing market recovery that began in 2012 continued into 2019. Housing prices increased, the number of new residential building permits declined slightly from 2018 levels and the number of new foreclosure filings declined. Mortgage rates declined in late 2019 months and remain low historically and the number of homes in the unsold inventory is low by historic standards according to the California Association of Realtors (“CAR”).

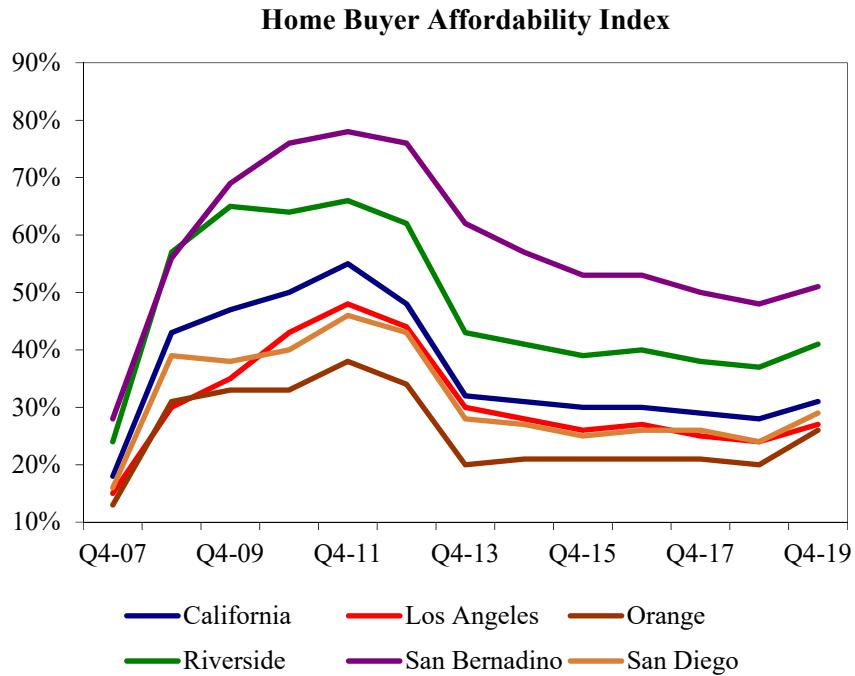
Median resale housing prices in Six County Area markets have risen substantially in recent years though the rate of increase has slowed recently. In the seven years ending December 2019 median resale prices rose 75% in Los Angeles County, 44% in Orange County, 74% in the Riverside-San Bernardino County area and 61% in San Diego County and are exceeding pre-recession levels. (See the following figure). Median price gains were fueled by job and income growth, low mortgage rates and a shortage of supply.



Source: California Association of Realtors

The rise in home prices has led to a decline in housing affordability for homebuyers throughout the Six County Area after 2013 as measured by CAR. Affordability inched up in Q4-2019 in all counties in the Six County Area.

The long-term demand (between 2025 and 2050) for housing based on job and population growth remains well above current levels according to projections from SCAG, SANDAG and CCSCE.



Source: California Association of Realtors

Nonresidential Construction Through 2019

Nonresidential construction permit levels reached a record \$15.6 billion in 2018, up 16% over 2017 levels. Permit levels declined 3.3% in 2019 compared to a year earlier.

The largest gains in 2019 were in San Diego and San Bernardino counties. All counties equaled or surpassed pre-recession 2007 levels. Public construction, not shown below, also increased. The increase in residential, nonresidential and public construction supported job growth in construction and related industries.

TOTAL NONRESIDENTIAL CONSTRUCTION PERMIT VALUATION (Dollars in Billions)

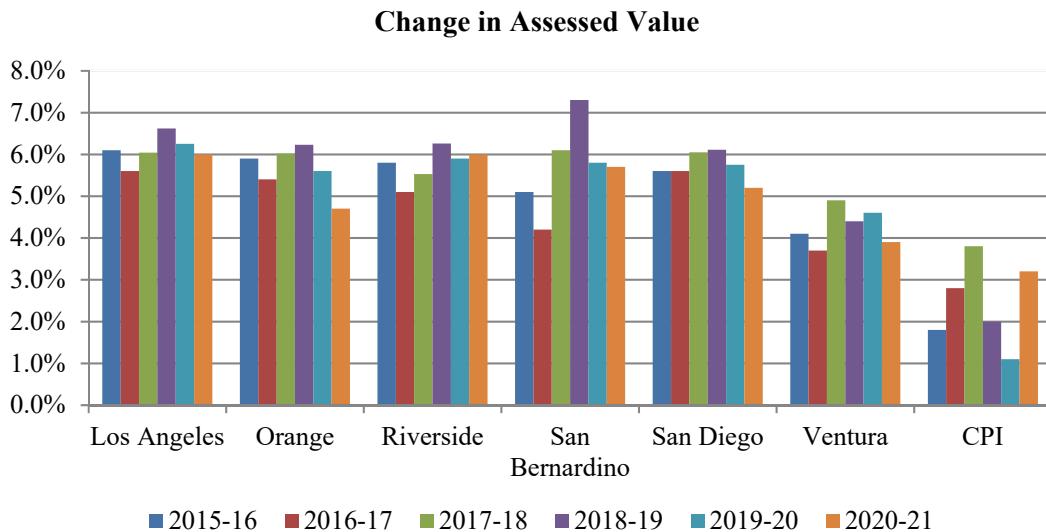
	<u>2007</u>	<u>2009</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Los Angeles County	\$4.7	\$2.7	\$5.3	\$6.0	\$6.7	\$6.6
Orange County	2.0	1.0	2.5	2.1	3.5	3.2
Riverside County	1.5	0.4	1.3	1.4	2.0	1.3
San Bernardino County	1.4	0.3	1.0	1.3	1.1	1.4
San Diego County	1.4	0.6	1.8	2.4	1.9	2.4
Ventura County	0.3	0.2	0.2	0.2	0.4	0.2
Total Six County Area	<u>\$11.3</u>	<u>\$5.1</u>	<u>\$12.1</u>	<u>\$13.4</u>	<u>\$15.6</u>	<u>\$15.1</u>

Source: Construction Industry Research Board and California Homebuilding Foundation

Assessed Valuation

Assessed valuation in the Six County Area has rebounded and outpaced inflation in recent years after a long downturn during the last recession that was a source of fiscal pressure on local communities

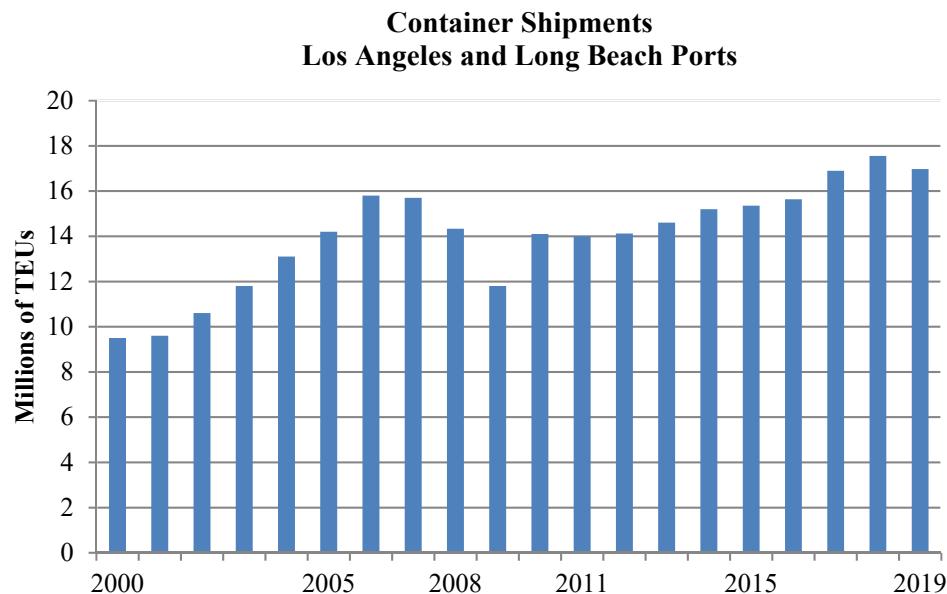
throughout the Six County Area. Assessed values increased again for the 2020-21 year with gains ranging from 3.9% in Ventura County to 6.0% in Los Angeles and Riverside counties compared to a forecast 3.2% increase in the Consumer Price Index (CPI) (See the following figure). For seven years in a row assessed valuation growth has outpaced inflation in each county in the Six County Area.



Source: County Assessors' Offices and Bureau of Labor Statistics

International Trade

Container volumes increased from 2012 through 2018. Tariff increases, particularly with China, and slowing world growth resulted in a late year decline in container volumes that pushed total 2019 volumes down 3.3% from 2018.



Source: Ports of Los Angeles and Long Beach

Over the longer term, international trade has been a leading growth sector in the Six County Area. Container volume rose 79% between 2000 and 2019 despite the decline in 2019. Trade volume increased by 6.1% in 2018 to \$619.9 billion including \$545.9 billion in the Los Angeles Customs District, leading all U.S. ports, and \$74.0 billion in the San Diego Customs District. This growth supports jobs and economic activity in the transportation, wholesale trade and warehousing industries as the Six County Area is a gateway for U.S. trade with Pacific Rim countries. For example, in the Riverside-San Bernardino metro area, where many imports are stored and shipped from, an increase in warehousing jobs from 16,900 to 73,600 between 2007 and 2019 occurred, along with 15,600 jobs added in trucking and wholesale trade with all three sectors exceeding pre-recession job levels.

Long-term growth in the United States and in its trading partners can boost international trade levels of activity in the coming years as will new trade agreements. However, the outlook for foreign trade expansion particularly with China and Mexico has become uncertain with the new trade agreements because the impacts on trade volumes among the three countries are not clear at this time.

Income, Wages and Poverty Rates

Counties in the Six County Area have income and wage levels and poverty rates that range from below the national average to above the national average. Orange and Ventura counties have the highest household income levels within the Six County Area. Los Angeles, Orange and San Diego counties have the highest wage levels, well above the national average. San Diego County income levels are also above the national average. Riverside and San Bernardino counties have per capita income and wage levels that are below the national average. Median household income in 2019 was above the national average in each of the counties in the Six County Area.

Per capita income and median household income measures are affected by demographic trends. Per capita income measures in the region are pushed downward by the above average percent of children in the Six County Area population compared to the national average, while median household income measures are pushed upward by the above average number of wage earners per household in the Six County Area. Income and wage trends in the Six County Area have been comparable to national trends since 2000. Poverty rates exceeded the national average in 2019 in Los Angeles and San Bernardino counties and were below the national average elsewhere in the Six County Area.

Per capita income is based on total personal income divided by population while median household income is based on money income, which is lower than total personal income. The following table shows median household income, per capita income, wage levels and poverty rates for each of the counties in the Six County Area, as well as for California and the United States, in 2019.

Income and poverty levels improved in 2019 throughout the Six County Area (See the following table). Median household income grew faster than inflation throughout the Six County Area. Average wage growth outpaced inflation and met or exceeded the national growth rate throughout the Six County Area. Poverty rates fell throughout the Six County Area although these rates do not take into account the rapid rise in rents and home prices throughout the Six County Area.

INCOME AND WAGES 2019

	Per Capita Income	Median Household Income	Average Wage	Poverty Rate
Los Angeles County	\$65,094	\$72,797	\$67,123	13.4%
Orange County	\$71,711	\$95,934	\$64,775	9.4%
Riverside County	\$42,418	\$73,260	\$46,832	11.3%
San Bernardino County	\$42,043	\$67,903	\$48,952	13.3%
San Diego County	\$63,729	\$83,985	\$64,211	10.3%
Ventura County	\$64,715	\$92,236	\$57,848	7.9%
California	\$66,619	\$80,440	\$71,351	12.3%
United States	\$56,490	\$65,712	\$59,209	11.8%

Source: Per Capita Income—U.S. Department of Commerce; Median Household Income and Poverty Rate—U.S. Census Bureau (American Community Survey); Average Wage—U.S. Bureau of Labor Statistics

CHANGE IN INCOME AND WAGES 2018-19

	Per Capita Income	Median Household Income	Average Wage	Poverty Rate
Los Angeles County	4.5%	6.9%	3.4%	-0.7%
Orange County	4.1%	6.9%	3.8%	-1.1%
Riverside County	4.5%	9.4%	3.8%	-1.4%
San Bernardino County	4.7%	6.3%	4.4%	-1.6%
San Diego County	4.2%	6.2%	3.7%	-1.1%
Ventura County	4.5%	9.1%	4.7%	-1.0%
California	4.5%	6.9%	4.2%	-0.5%
United States	3.5%	6.1%	3.4%	-1.3%

Source: Per Capita Income—U.S. Department of Commerce; Median Household Income and Poverty Rate—U.S. Census Bureau (American Community Survey); Average Wage—U.S. Bureau of Labor Statistics

Population

Population growth in California and the Six County Area has been slowing since 2000 compared with previous decades. Population growth averaged 174,100 per year between 2000 and 2010 compared to 219,300 between 1990 and 2000. Population growth slowed after 2005 as high housing prices and large job losses contributed to larger levels of out-migration to other areas of California and other states.

Population growth averaged 115,400 between 2010 and 2020 according to the DOF estimates, and growth slowed in the past five years and declined by 12,500 in 2020. The Six County Area had 22.2 million residents in 2020, approximately 56% of the State's population.

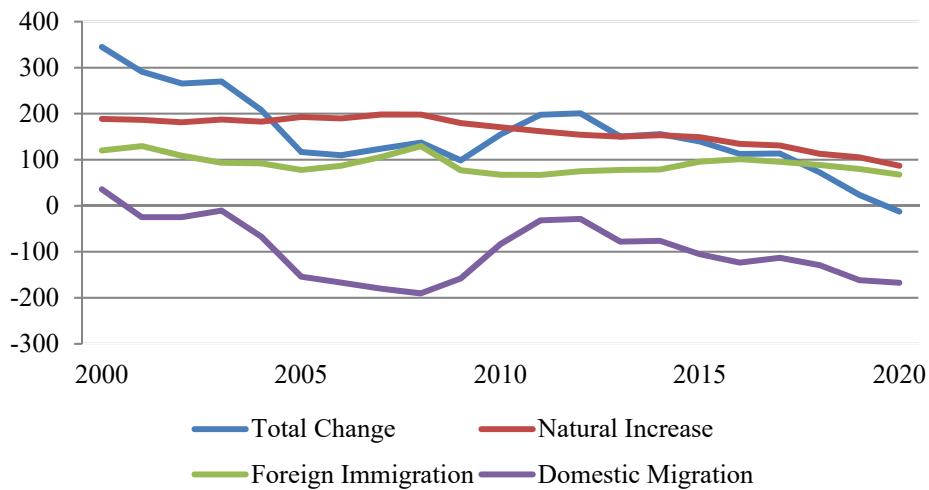
SIX COUNTY AREA POPULATION (In Thousands)

	1990	2000	2005	2010	2017	2018	2019	2020
Los Angeles County	8,860	9,544	9,810	9,846	10,223	10,277	10,211	10,172
Orange County	2,412	2,854	2,957	3,017	3,189	3,195	3,195	3,191
Riverside County	1,188	1,557	1,935	2,198	2,383	2,409	2,428	2,449
San Bernardino County	1,432	1,719	1,943	2,045	2,147	2,161	2,176	2,184
San Diego County	2,505	2,828	2,970	3,078	3,315	3,339	3,347	3,352
Ventura County	669	757	797	825	849	848	844	841
Total Six County Area	<u>17,066</u>	<u>19,259</u>	<u>20,412</u>	<u>21,009</u>	<u>22,106</u>	<u>22,178</u>	<u>22,202</u>	<u>22,189</u>

Source: California Department of Finance as of July 1

Six County Area population growth is determined by three major components—natural increase, which is the number of births minus the number of deaths, net foreign immigration, which is the number of people moving to the region from abroad minus the number moving abroad, and net domestic migration, which is the number of people moving from other regions of the state and nation minus the number moving out to these areas. Natural increase was the largest component of population growth from 2010 through 2020 averaging near 134,000 per year. Declining birth rates in recent years have reduced natural increase to near 87,000 in 2020.

Components of Change in Six County Area Population (Thousands)



Source: California Department of Finance as of July 1

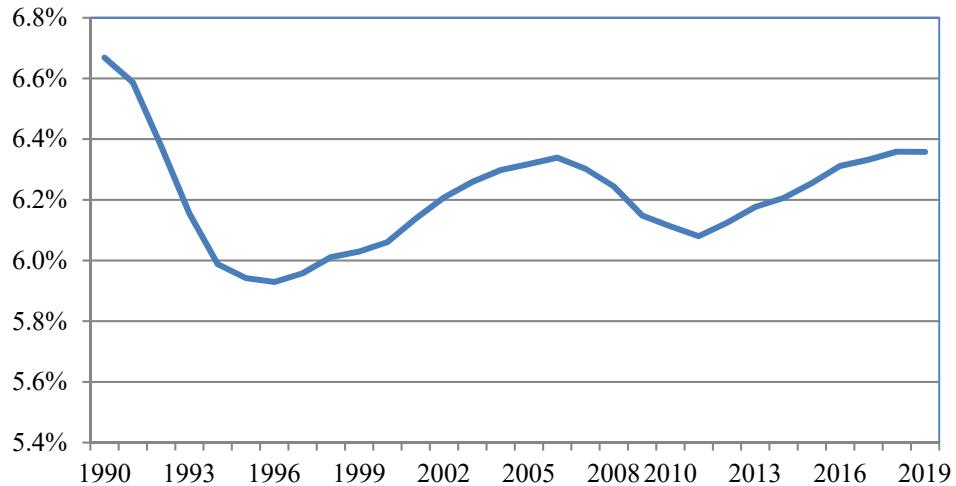
Net foreign immigration has averaged 82,000 per year between 2010 and 2020, while net domestic migration has been negative since 2010, averaging -101,400 per year. Foreign immigration declined during the recession but has rebounded to near 100,000 per year on average since 2015. Net out migration increased since 2014 and reached -167,100 in 2020.

Economic Structure of the Six County Area and Long-Term Prospects

The Six County Area has steadily increased its share of national jobs in recent years. In 2019, the Six County Area accounted for more than 6.3% of the nation's non-farm wage and salary jobs, the highest

share since before the aerospace recession in 1990. The Six County Area economy usually outpaces the nation in growth periods and lags behind in recessions as in the periods after 1990 and 2007.

Six County Area Share of U.S. Jobs



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

In 2019, Education and Health Services was the largest major industry sector in the Six County Area measured by jobs, with just nearly 1.6 million jobs or 16% of the Six County Area total (see the table on the following page).

The next largest sectors in 2019 were Professional and Business Services and Government followed by Leisure and Hospitality, Retail Trade, and Manufacturing. Three sectors accounted for 60% of the job growth since 2010: Educational and Health Services, Leisure and Hospitality, and Professional and Business Services. Six County Area job levels in 2019 were more than 900,000 above 2007 levels despite large losses in Manufacturing and smaller declines in other sectors. Between 2010 and 2019 the Six County Area added more than 1.6 million jobs.

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

Long-term job growth is driven by the Six County Area's economic base—those sectors that sell most of their goods and services in national and world markets outside of the Six County Area. Recent projections by CCSCE, SCAG and SANDAG report that the Six County Area will see job growth that slightly exceeds the national average during the next 10 to 30 years, led by gains in Professional and Business Services, Wholesale Trade, Information and the tourism component of Leisure and Hospitality.

SIX COUNTY AREA
EMPLOYMENT BY MAJOR SECTOR
(In Thousands)

	2000	2007	2010	2019	Change 2007-2010	Change 2010-2019
Farm	67.7	63.8	59.8	56.1	-4.0	-3.7
Natural Resources and Mining	4.6	6.4	6.0	4.9	-0.4	-1.1
Construction	373.8	478.7	298.5	464.3	-180.2	165.8
Manufacturing	1,113.6	888.4	737.4	743.4	-151.0	6.0
Wholesale Trade	383.7	426.1	379.5	424.1	-46.6	44.6
Retail Trade	835.7	949.8	851.2	933.3	-98.6	82.1
Transp, Warehousing and Utilities	298.0	304.4	280.1	429.7	-24.3	149.6
Information	345.0	292.4	258.3	284.1	-34.1	25.8
Financial Activities	449.5	524.3	443.0	478.5	-81.3	35.5
Professional and Business Services	1,182.7	1,289.4	1,136.6	1,431.4	-152.8	294.8
Educational and Health Services	831.1	1,097.9	1,203.4	1,589.5	105.5	386.1
Leisure and Hospitality	741.0	895.0	859.0	1,191.0	-36.0	332.0
Other Services	271.4	293.9	272.4	322.7	-21.5	50.3
Government	1,171.1	1,245.8	1,240.9	1,306.3	-4.9	65.4
Total Wage and Salary Jobs	8,068.9	8,756.3	8,023.1	9,659.3	-733.2	1,636.2

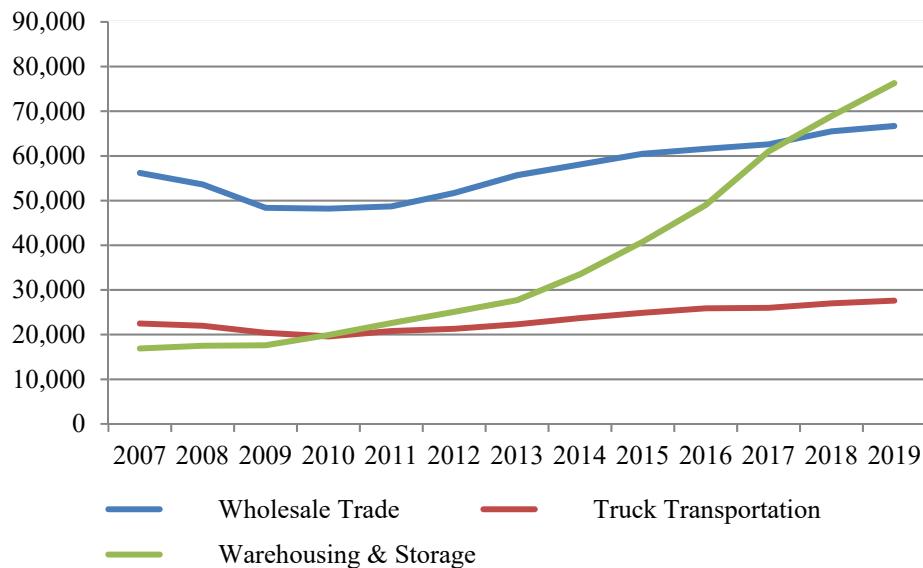
Source: EDD

The Six County Area economy has an economic base that is diversified and well positioned to participate in U.S. and world economic growth over the next ten years. Job levels are expected to grow in the high-wage and fast-growing professional, scientific, technical and information services sectors, which include architecture, design, computer, research and development, advertising, legal, accounting, and internet-related and management services. Other fast-growing sectors over the next ten years include entertainment and tourism industries and health care.

The Six County Area has an above-average share of four additional fast-growing sectors—Wholesale Trade and Transportation, tied to the area's projected growth in foreign trade; Information, which includes motion pictures; and the tourism component of Leisure and Hospitality, tied to growth in disposable income in the U.S. and worldwide.

The expansion of foreign trade and the growth of distribution centers such as Amazon in the Inland Empire have contributed to a surge in logistics (wholesale trade, warehouse and trucking) jobs in the Riverside-San Bernardino metro area. (See following figure). Between 2007 and 2019 these jobs increased by 75,600 or 78% including a gain of 9,200 jobs in 2019 led by a surge in warehousing jobs.

Logistics Jobs in the Riverside-San Bernardino Metro Area



Source: EDD

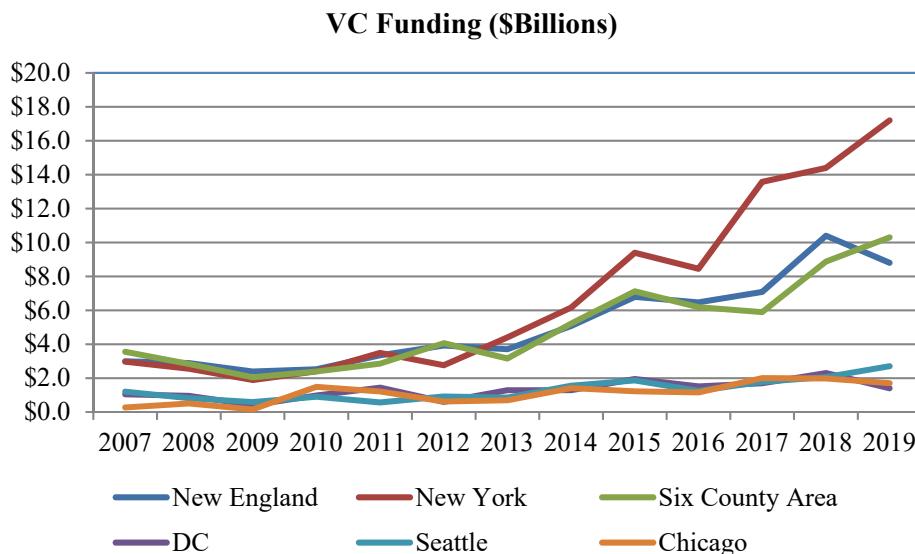
The diversity of the Six County Area economy has led to GDP growth that slightly exceeded the national average in 2019. Average GDP growth in nominal dollars in 2019 was 4.9% and real GDP growth was 2.7% compared to 2.2% for the nation and 3.4% for the state. In 2019, the Six County Area GDP was just under \$1.6 trillion.

SIX COUNTY AREA GDP (Billions of Current Dollars)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	% Change Current \$ <u>2018-19</u>	Real \$ <u>2018-19</u>
LA-Orange	\$953.3	\$1,002.9	\$1,041.7	\$1,088.7	4.5%	2.5%
Ventura	49.9	50.6	52.2	54.8	4.9%	2.8%
Riv.-San Bern.	169.1	177.2	186.0	199.6	7.3%	4.5%
San Diego	<u>220.3</u>	<u>230.6</u>	<u>242.2</u>	<u>253.1</u>	4.5%	2.2%
Six County Area	\$1,392.6	\$1,461.4	\$1,522.2	\$1,596.2	4.9%	2.7%

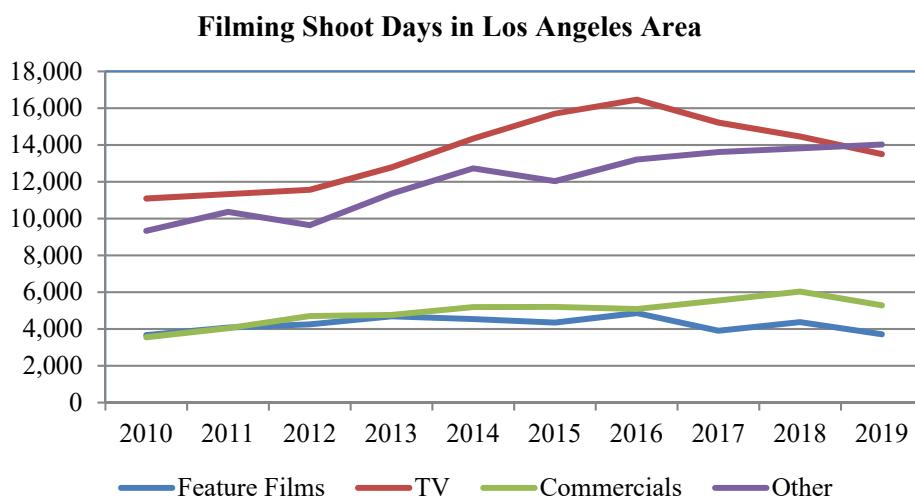
Source: U.S. Department of Commerce; 2019 estimates are preliminary

The Bay Area is by far the largest recipient of new venture capital (VC) funding with \$47.3 billion in 2019 funding. The Six County Area has been one of the top three VC markets behind the Bay Area for the past decade, outpacing the Chicago, Seattle and Washington, DC areas in total funding (see the following). In 2019, the Six County Area accounted for \$10.3 billion (a record high VC funding level) behind New York metro and ahead of New England.



Source : PWC, Thomson Reuters, National Venture Capital Association

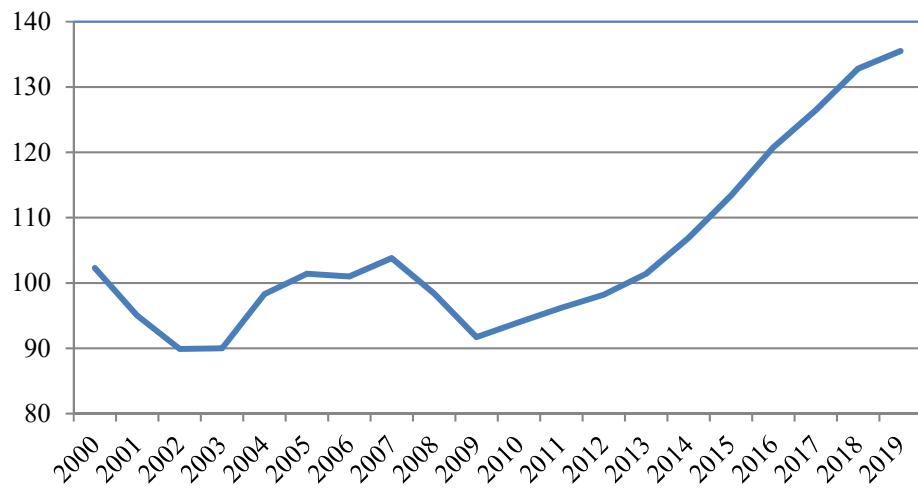
The motion picture and tourism sectors are two major components of the Six County Area economic base. Through the end of 2019, Film LA reports an increase in the number of filming shoot days since 2010. (See the following chart) However, the mix of production days changed over time with long-term losses in the production of major feature films (though levels have been flat since 2010) and TV drama series offset by larger gains in commercials, other kinds of TV filming and web-based and reality shows, which according to Film LA have lower dollar values per production day of activity. In September 2014, California approved an increase in the state film tax credit to \$330 million per year from \$100 million starting in 2015. Production days increased in 2015 and set a recent record in 2016 of 39,627 production days. Production levels in 2019 declined 5.6% from 2018 levels with declines in TV, films and commercials.



Source: Film LA

As of the end of 2019, California and the Six County Area were experiencing growth in both domestic and foreign visitors. Hotel rates and occupancy were increasing in the Six County Area and the same was true for employment in the hotel and amusement park sectors. In 2018, Los Angeles County set tourism records for the fourth year in a row for visitors, 50 million, up 3.1% over 2017, according to data from the Los Angeles Tourism and Convention Board. Foreign travel to the region in 2018 also surged with gains of 6.9% for China, 4.5% for Canada and 3.0% for the UK. In 2018, passenger travel at Los Angeles International Airport was up 3.5% to 87.5 million trips to set an all-time record. Air passenger travel at the major airports in the Six County Area reached record levels in 2019 up 2.0% over 2018 to 135.5 million trips led by gains at Burbank, Ontario and San Diego airports. (See the following chart.)

Passengers at Major Airports in the Six County Area



Source: Airport websites—Los Angeles International, Burbank, John Wayne, Ontario and San Diego

The positives for long-term economic growth include the strength of the region as a center for knowledge-based and creative activities and international trade, tourism and investment with the Pacific Rim. For example, the Six County Area does not have a large number of automotive industry production jobs but nearly all large worldwide auto companies have a major design studio in the Six County Area.

Risks for the Long-Term Forecast

The long-term impact of the COVID-19 pandemic on the Six County Area economy cannot be known at this time. Both the short-term impact and any longer-term impacts will depend on the duration of the pandemic and the effectiveness of efforts to control it and the pace of the economic re-opening and recovery.

The risks and challenges described in the following paragraphs were present in December 2020 and are expected to continue to pose challenges over the long-term.

Housing and transportation challenges pose risks to the long-term economic competitiveness and quality of life in the Six County Area. Recent housing shortages have contributed to relatively large increases in home prices and rents. If more housing is not built, continuing increases in housing costs could affect location decisions of firms and families.

The state Department of Housing and Community Development has recently released the Regional Housing Needs Assessment (RHNA) goals for SCAG and SANDAG. The total goal for the Six County Area for the period from 2021 to 2029 is 1.5 million units or nearly three times the recent annual

permit levels. More than half of the units are for residents making less than 120% of the area median income. Roughly half of the units are to make up for current shortages and half for projected growth.

In the past three years, the State legislature passed housing legislation to ease development restrictions and to set aside money for subsidized housing. In 2021, the State legislature will consider additional legislation that will make it easier to build housing at all income levels with special attention on housing barriers in jurisdictions that are not meeting the housing targets in their plans.

In addition, the Six County Area needs substantial transportation investment, at least \$500 billion to 2040, to serve the growing number of residents and businesses. The two major planning agencies serving the Six County Area, SANDAG and SCAG, have plans to address these housing and transportation challenges but they require cooperation from local jurisdictions in siting housing and funding for both transportation and below market housing projects in addition to state and local laws that reduce barriers to and costs of building housing and transportation improvements.

The Six County Area economy is connected to the national and world economies, especially the Pacific Rim, and is subject to fluctuations and changes in long-term demographic trends around the world and changes in national policies that affect the economy.

Trade and immigration policies in place in 2018, 2019 and 2020 restrained the growth of the Six County Area. The Biden administration has announced plans to reverse some of the recent trade and immigration policies. If enacted, these new policies will over time improve the outlook for job and population growth in the Six County Area.

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under “– General” below has been provided by DTC. Metropolitan makes no representations as to the accuracy or completeness of such information. Further, Metropolitan undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s website as described under “– General,” including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website. The Beneficial Owners of the 2021A Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NONE OF METROPOLITAN, THE FISCAL AGENT OR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2021A BONDS UNDER THE SUBORDINATE RESOLUTIONS; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2021A BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2021A BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2021A BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2021A Bonds. The 2021A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2021A Bonds and will be deposited with DTC.

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

Direct Participant, either directly or indirectly (“Indirect Participants”). S&P Global Ratings has rated DTC “AA+.” DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated herein by reference.

Purchases of the 2021A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2021A Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2021A Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2021A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2021A Bonds, except in the event that use of the book-entry system for the 2021A Bonds is discontinued.

To facilitate subsequent transfers, all 2021A Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2021A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2021A Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2021A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2021A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2021A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2021A Bonds documents. For example, Beneficial Owners of the 2021A Bonds may wish to ascertain that the nominee holding the 2021A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2021A Bonds of like maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2021A Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Metropolitan as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2021A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2021A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from Metropolitan or the Paying Agent, on the payable date in accordance with their

respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, the Paying Agent or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the 2021A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NONE OF METROPOLITAN, THE FISCAL AGENT NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Metropolitan, the Fiscal Agent and the Paying Agent cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal or interest on the 2021A Bonds paid to DTC or its nominee as the registered owner, or will distribute any notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Metropolitan, the Fiscal Agent and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2021A Bonds or for an error or delay relating thereto.

A Beneficial Owner shall give notice to elect to have its 2021A Bonds purchased or tendered, if applicable, through its Direct Participant, to the Paying Agent, and shall effect delivery of such 2021A Bonds by causing the Direct Participant to transfer the Direct Participant's interest in the 2021A Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of 2021A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2021A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2021A Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2021A Bonds at any time by giving reasonable notice to Metropolitan or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2021A Bond certificates are required to be printed and delivered.

Metropolitan may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2021A Bond certificates will be printed and delivered to DTC.

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

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF 2021A BONDS AND WILL NOT BE RECOGNIZED BY THE PAYING AGENT AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

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APPENDIX G
FORM OF BOND COUNSEL OPINION

Upon issuance of the 2021A Bonds, Nixon Peabody LLP, Bond Counsel, proposes to render its final approving opinion with respect to the 2021A Bonds in substantially the following form:

[Closing Date]

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

\$222,160,000
The Metropolitan Water District of Southern California
Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A
(Federally Taxable)

Ladies and Gentlemen:

We have acted as Bond Counsel to The Metropolitan Water District of Southern California (the “District”) in connection with the authorization, issuance, sale and delivery of \$222,160,000 aggregate principal amount of its “The Metropolitan Water District of Southern California Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A (Federally Taxable)” (the “Bonds”).

The Bonds have been issued by the District pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the “Act”). The Bonds are also issued pursuant to Resolution 9199 adopted by the Board of Directors of the District (the “Board”) on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including as supplemented by Resolution 9200 adopted by the Board on March 8, 2016 (the “First Supplemental Subordinate Resolution” and together with the Master Subordinate Resolution, the “Subordinate Resolutions”). The Bonds are further described in the Paying Agent Agreement, dated as of June 1, 2021 (the “Paying Agent Agreement”), by and between Metropolitan and Wells Fargo Bank, National Association (the “Paying Agent”). The voters in the District’s service area approved the District’s issuance of revenue bond at a special election held on June 4, 1974, as required by the Act. The Bonds are subject to call and redemption prior to maturity on the dates, at the prices and upon the notice authorized by the Subordinate Resolutions and the Paying Agent Agreement. The Bonds mature in the amounts and in the years, and bear interest, in accordance with the Subordinate Resolutions and the Paying Agent Agreement. All terms used herein and not otherwise defined shall have the meanings given such terms in the Subordinate Resolutions.

Our services as Bond Counsel to the District were limited to an examination of the transcript of legal proceedings referred to above, and such other documents, certificates, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have also relied on such certificates of officers of the District and others as we have considered necessary for the purposes of this opinion and with your permission, we have relied on an opinion dated the date hereof by the General

Counsel to the District, with respect to the due adoption of the Resolutions and the Ad Hoc Certificate, dated June 7, 2021. We have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and the validity against, any parties thereto other than the District to the rendering of the opinions set forth in the following paragraphs.

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

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

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

2. The District is obligated by law and the Master Subordinate Resolution to prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System, which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any other revenues of the District and any amounts available in any Unrestricted Reserves of the District, at least sufficient to pay, in the following order of priority, (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 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.

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

4. Interest on the Bonds is exempt from personal income taxes of the State of California under present state law.

Except as stated in paragraphs 4, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

The opinion set forth in paragraphs 1 and 3 above assumes that the Paying Agent has duly authenticated the Bonds.

The opinions expressed herein are limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction. We have acted in this transaction solely as Bond Counsel to the District. This opinion may not be utilized for any other purpose and may not be quoted without our express prior written consent. The opinion speaks only as of its date and is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters. We assume no obligation to review, update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention, or to reflect any changes in laws which may hereafter occur.

Respectfully submitted,

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APPENDIX H

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated as of June 1, 2021 by The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the issuance of its \$222,160,000 Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A (Federally Taxable) (the “Bonds”). The Bonds are being issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Article 11 of Chapter 3 (commencing with Section 53580) and Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code (the “Act”), and Resolution 9199 adopted on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including as supplemented by Resolution 9200 adopted on March 8, 2016 (the “First Supplemental Subordinate Resolution” and together with the Master Subordinate Resolution, the “Subordinate Resolutions”). The Bonds are further described in the Paying Agent Agreement, dated as of June 1, 2021 (the “Paying Agent Agreement”), by and between Metropolitan and Wells Fargo Bank, National Association (the “Paying Agent”), relating to the Bonds. Capitalized terms used in this Undertaking which are not otherwise defined in the Subordinate Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

ARTICLE I

Definitions

Section 1.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

- (1) “Annual Financial Information” means, collectively, (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) the table under the caption “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Debt Service Requirements” in the forepart of the Official Statement; (ii) under the caption “METROPOLITAN’S WATER SUPPLY” in Appendix A to the Official Statement, the table “Metropolitan’s Water Storage Capacity and Water in Storage”; (iii) under the caption “METROPOLITAN REVENUES” in Appendix A to the Official Statement, the tables “Summary of Revenues by Source”, “Summary of Water Transactions and Revenues”, “Summary of Water Rates”, and “Ten Largest Water Customers”; the water standby charge for the fiscal year; revenues for the fiscal year resulting from wheeling and exchange transactions; and the total power revenues for the fiscal year; (iv) under the caption “METROPOLITAN REVENUES – Investment of Moneys in Funds and Accounts” in Appendix A to the Official Statement, the total market value of all Metropolitan funds, earnings on investments and the minimum month-end balance of Metropolitan’s investment portfolio; (v) under the caption “METROPOLITAN EXPENSES” in Appendix A to the Official Statement, the table “Summary of Expenses”; outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long-term commitments, and the information described under the sub-caption “Defined Benefit Pension Plan and Other Post-Employment Benefits”; (vi) under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Appendix A to the Official Statement, historical revenues and expenses for the then immediately past fiscal year, as presented in the

table “Historical and Projected Revenues and Expenses”; (vii) under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Appendix A to the Official Statement, the percentage of operation and maintenance expenses to total costs; and (viii) under the caption “METROPOLITAN EXPENSES – Power Sources and Costs; Related Long-Term Commitments” in Appendix A to the Official Statement, the expenses for electric power, for so long as such information shall be deemed to be material by Metropolitan and (B) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

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

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

(3) “Counsel” means a nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to Metropolitan.

(4) “EMMA System” means the MSRB’s Electronic Municipal Market Access system or any successor nationally recognized municipal securities information repositories recognized by the SEC for the purposes referred to in the Rule.

(5) “Event Notice” means written or electronic notice of a Notice Event.

(6) “Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “Financial Obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

(7) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

(8) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

(9) “Notice Event” means any of the following events with respect to the Bonds:

(i) principal and interest payment delinquencies;

- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of any Bonds;
- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of Metropolitan (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for Metropolitan in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of Metropolitan, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of Metropolitan);
- (xiii) the consummation of a merger, consolidation, or acquisition involving Metropolitan or the sale of all or substantially all of the assets of Metropolitan, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) incurrence of a Financial Obligation of Metropolitan, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of Metropolitan, any of which affect holders of the Bonds, if material; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of Metropolitan, any of which reflect financial difficulties (it being understood that for purposes of Section 2.4 hereof, Metropolitan intends to comply with the provisions of this Undertaking for the Notice Events

described in this subparagraph (xvi) and subparagraph (xv) of this paragraph (9) and the definition of “Financial Obligation” in paragraph (6) of this Section 1.1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Commission in its Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release).

(10) “Official Statement” means the Official Statement dated June 15, 2021, of Metropolitan relating to the Bonds.

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

(12) “SEC” means the United States Securities and Exchange Commission.

(13) “State” means State of California.

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

ARTICLE II The Undertaking

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

Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 2020-21, by no later than 180 days after the end of the respective fiscal year, to the EMMA System.

(b) Metropolitan shall provide, in a timely manner, notice of any failure of Metropolitan to provide the Annual Financial Information by the dates specified in subsection (a) above to the EMMA System.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof, Metropolitan shall provide Audited Financial Statements, when and if available, to the EMMA System.

Section 2.4. Event Notices. If a Notice Event occurs, Metropolitan shall provide or cause to be provided, in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event, an Event Notice to the EMMA System.

Section 2.5. Additional Information. Nothing in this Undertaking shall be deemed to prevent Metropolitan from disseminating any other information, using the means of dissemination set

forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Event Notice, in addition to that which is required by this Undertaking. If Metropolitan chooses to include any information in any Annual Financial Information or Event Notice in addition to that which is specifically required by this Undertaking, Metropolitan shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information or Event Notice.

ARTICLE III Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if Metropolitan provides Annual Financial Information by specific reference to documents (i) either (1) provided to the EMMA System, or (2) filed with the SEC, or (ii) if such document is a “final official statement,” as defined in paragraph (f)(3) of the Rule, available from the MSRB or the EMMA System.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Event Notices. Each Event Notice shall be so captioned and shall prominently state the Notice Event and date, and be filed with the applicable CUSIP numbers of the Bonds.

Section 3.4. Transmission of Information and Notices. Any filing under this Undertaking may be made solely by transmitting such filing to (i) the MSRB through the EMMA System or (ii) as otherwise specified in the relevant rules and interpretive advice provided by the SEC. Unless otherwise required by law and, in Metropolitan’s sole determination, subject to technical and economic feasibility, Metropolitan shall employ such methods of information and notice transmission as shall be requested or recommended by the herein designated recipients of Metropolitan’s information and notices.

Section 3.5. Fiscal Year. Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. Metropolitan’s current fiscal year is July 1 to June 30, and Metropolitan shall promptly notify the EMMA System of each change in its fiscal year.

ARTICLE IV Termination, Amendment and Enforcement

Section 4.1. Effective Date; Termination.

(a) This Undertaking and the provisions hereof shall be effective upon the issuance of the Bonds.

(b) Metropolitan’s obligations under this Undertaking shall terminate upon a legal defeasance pursuant to Section 9.02 of the Master Subordinate Resolution, prior redemption or payment in full of all of the Bonds.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that Metropolitan (1) receives an opinion of Counsel, addressed to Metropolitan, to the effect that those portions of the Rule which require this Undertaking, or any of the provisions hereof, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or

otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the EMMA System.

Section 4.2. Amendment.

(a) This Undertaking may be amended by Metropolitan, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of Metropolitan or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date of this Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the same effect as set forth in clause (2) above, (4) either (i) Metropolitan shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with Metropolitan (such as bond counsel) and acceptable to Metropolitan, addressed to Metropolitan, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Subordinate Resolutions with consent of holders of Bonds, pursuant to the Subordinate Resolutions as in effect on the date of this Undertaking, and (5) Metropolitan shall have delivered copies of such opinion(s) and amendment to the EMMA System.

(b) In addition to subsection (a) above, this Undertaking may be amended and any provision of this Undertaking may be waived by Metropolitan, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Undertaking which is applicable to this Undertaking, (2) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the effect that performance by Metropolitan under this Undertaking as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule and (3) Metropolitan shall have delivered copies of such opinion and amendment to the EMMA System.

(c) To the extent any amendment to this Undertaking results in a change in the type of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of such amendment shall be provided by Metropolitan to the EMMA System.

Section 4.3. Contract; Benefit; Third-Party Beneficiaries; Enforcement.

(a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Undertaking.

(b) Except as provided in this subsection (b), the provisions of this Undertaking shall create no rights in any person or entity. The obligations of Metropolitan to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or (ii) in the case of challenges to the adequacy of any financial statements, financial information and operating data so provided, by the holders of 25 percent in aggregate amount of Outstanding Bonds. The holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of Metropolitan's obligations under this Undertaking. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by Metropolitan to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Subordinate Resolutions and shall not result in any acceleration of payment of the Bonds, and the rights and remedies provided by the Subordinate Resolutions upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of Federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such Federal securities laws and official interpretations thereof.

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

By: _____

Katano Kasaine
Assistant General Manager/
Chief Financial Officer

APPROVED AS TO FORM:

MARcia SCULLY, General Counsel

By: _____

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