NEW ISSUE – BOOK-ENTRY ONLY **RATINGS: See the caption "RATINGS"**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, and Curls Bartling P.C., Co-Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest on the 2015A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2015A Bonds is exempt from State of California personal income tax. See the caption "TAX MATTERS" with respect to tax consequences relating to the 2015A Bonds.

$208,255,000
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
WATER REVENUE BONDS, 2015 AUTHORIZATION SERIES A

Dated: Date of Delivery **Due: July 1, as shown on the inside front cover page**

The Metropolitan Water District of Southern California ("Metropolitan") is issuing its $208,255,000 aggregate principal amount of Water Revenue Bonds, 2015 Authorization Series A (the "2015A Bonds") for the purpose of providing funds to pay certain costs of acquisition, construction and improvements to the Water System and to pay the costs of issuance of the 2015A Bonds. See the caption "ESTIMATED SOURCES AND USES OF FUNDS." *Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.*

The 2015A Bonds will mature in the principal amounts on the dates and in the years, and will bear interest at the respective rates of interest per annum, as set forth on the inside front cover page hereof. Metropolitan will pay interest on the 2015A Bonds on July 1, 2016 and each January 1 and July 1 thereafter.

The 2015A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described under the caption "DESCRIPTION OF THE 2015A BONDS—Redemption."

Principal of, redemption premium, if any, and interest on the 2015A Bonds are secured solely by and payable solely from Net Operating Revenues, which are revenues that Metropolitan receives from charges for the sale or availability of water after payment of Operation and Maintenance Expenditures. Metropolitan will issue the 2015A Bonds on a parity with the Bonds and Parity Obligations. Metropolitan will not fund a reserve fund for the 2015A Bonds.

The 2015A Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues on a parity with Metropolitan's outstanding Parity Bonds and other Parity Obligations as described herein. As of November 1, 2015, Metropolitan had approximately $4.03 billion aggregate principal amount of Bonds outstanding. The 2015A 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 2015A 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 2015A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues as described in this Official Statement.

The 2015A Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, and Curls Bartling P.C., Co-Bond Counsel to Metropolitan. Certain legal matters will be passed upon for Metropolitan by its General Counsel and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. Public Resources Advisory Group, Los Angeles, California is serving as Financial Advisor to Metropolitan in connection with the issuance of the 2015A Bonds. Metropolitan anticipates that the 2015A Bonds will be available for delivery through the facilities of DTC on or about December 17, 2015.

RBC Capital Markets **US Bancorp**

Siebert Brandford Shank & Co., L.L.C. **Ramirez & Co., Inc.**

December 9, 2015

MATURITY SCHEDULE

BASE CUSIP[†] 59266T

$208,255,000
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
WATER REVENUE BONDS, 2015 AUTHORIZATION SERIES A

Maturity (July 1)	***Principal Amount***	***Interest Rate***	***Yield***	***Price***	***CUSIP[†]***
2018	$ 1,990,000	5.000%	0.780%	110.587	LN9
2019	2,145,000	5.000	0.940	114.098	LP4
2020	2,585,000	5.000	1.110	117.171	LQ2
2021	2,535,000	5.000	1.280	119.829	LR0
2022	3,740,000	5.000	1.460	121.999	LS8
2023	4,020,000	5.000	1.630	123.815	LT6
2024	15,740,000	5.000	1.790	125.312	LU3
2025	13,615,000	5.000	1.930	126.629	LV1
2026	14,855,000	5.000	2.070	125.243[(c)]	LW9
2027	15,745,000	5.000	2.150	124.460[(c)]	LX7
2028	61,060,000	5.000	2.240	123.585[(c)]	LY5

$48,720,000 5.000% Term 2015A Bonds maturing July 1, 2040, Yield 2.860%, Price 117.754[(c)], CUSIP[†] LZ2
$21,505,000 4.000% Term 2015A Bonds maturing July 1, 2045, Yield 3.320%, Price 105.519[(c)], CUSIP[†] MA6

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(c) *Priced to first optional redemption date of July 1, 2025 at par.*

MAJOR WATER CONVEYANCE FACILITIES
TO SOUTHERN CALIFORNIA

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Management

JEFFREY KIGHTLINGER, *General Manager*

MARCIA SCULLY, *General Counsel*

GERALD C. RISS, *General Auditor*

DEENA GHALY, *Ethics Officer*

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

FIDENCIO M. MARES, *Interim Assistant General Manager/Chief Administrative Officer*

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

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

DEE ZINKE, *Deputy General Manager/External Affairs*

DAWN M. CHIN, *Board Executive Secretary*

Co-Bond Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

Curls Bartling P.C.
Oakland, California

Financial Advisor

Public Resources Advisory Group
Los Angeles, California

Fiscal Agent

Roger N. Marumoto
Metropolitan Treasurer

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

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

The Underwriters have provided the following two paragraphs for inclusion in this Official Statement.

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

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

CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association, and is set forth herein for convenience of reference only. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of the Underwriters, the Financial Advisor or Metropolitan is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

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

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

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(*continued*)

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 or in the Resolutions. Investors must read the entire Official Statement, including the Appendices hereto, to obtain information essential to making an informed investment decision.

Metropolitan

The Metropolitan Water District of Southern California ("Metropolitan") is a metropolitan water district created in 1928 by a vote of the electorates of several southern California cities. Metropolitan's primary purpose was and is to provide a supplemental supply of water for domestic and municipal uses and purposes at wholesale rates to its member public agencies. There are 26 member public agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts and one county water authority. Metropolitan is governed by a 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. The member agencies of Metropolitan are not currently obligated by contract to purchase water from Metropolitan. For a description of voluntary purchase orders entered into by member agencies, see Appendix A under the caption "METROPOLITAN REVENUES—Member Agency Purchase Orders."

For general information regarding Metropolitan, including information regarding Metropolitan's operations and finances, see Appendices A and B. For selected demographic and economic information with respect to Metropolitan's service area, see Appendix E.

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 with respect to Metropolitan's service area, see Appendix E.

Authorization for the 2015A Bonds

Metropolitan is issuing its $208,255,000 aggregate principal amount of Water Revenue Bonds, 2015 Authorization Series A (the "2015A Bonds") pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), and Resolution 8329 adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 9197 adopted on November 10, 2015 (the "Twenty-First Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The voters in Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Revenue bonds issued by Metropolitan pursuant to the Resolutions are referred to in this Official Statement as the "Bonds." The 2015A Bonds when issued will be payable on a parity with Metropolitan's outstanding Bonds and any additional Bonds hereafter issued by Metropolitan payable on a parity therewith ("Parity Bonds") and with other outstanding and future obligations of Metropolitan payable on a parity with the Bonds ("Parity Obligations").

On July 14, 2015, Metropolitan's Board authorized the use of tax-exempt bond proceeds and other forms of indebtedness to reimburse up to $300 million of Capital Investment Plan expenditures for projects that were initially funded from Metropolitan's General Fund and the Replacement and Refurbishment Fund. On October 13, 2015, Metropolitan's Board adopted an ordinance (the "2015 Revenue Bond Ordinance") determining that the interests of Metropolitan require the use of up to an aggregate principal amount of $500 million of revenue bonds to fund a portion of its Capital Investment Plan costs through fiscal year 2017-18. On November 10, 2015, the Board adopted the Twenty-First Supplemental Resolution, which authorized the issuance of the 2015A Bonds as the first series of revenue bonds under the 2015 Revenue Bond Ordinance to reimburse pay-as-you-go expenditures for the Capital Investment Plan as described above and for future capital program expenditures. The issuance of the balance of the $500 million aggregate principal amount of revenue bonds under the 2015 Revenue Bond Ordinance would be subject to board approval in future supplemental bond authorizations.

Purpose of the 2015A Bonds

Metropolitan is issuing the 2015A Bonds for the purpose of providing funds to pay certain costs of acquisition, construction and improvements to the Water System and to pay the costs of issuance of the 2015A Bonds. See the caption "ESTIMATED SOURCES AND USES OF FUNDS."

General Terms of the 2015A Bonds

The 2015A Bonds will be dated the date of their delivery. The 2015A Bonds will mature in the principal amounts on the dates and in the years, and will bear interest at the respective rates of interest per annum, all as set forth on the inside front cover page hereof. Metropolitan will issue the 2015A Bonds as fully registered bonds in denominations of $5,000 or any integral multiple thereof. Metropolitan will pay interest on the 2015A Bonds on July 1, 2016 and each January 1 and July 1 thereafter. See the caption "DESCRIPTION OF THE 2015A BONDS."

The 2015A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described under the caption "DESCRIPTION OF THE 2015A BONDS—Redemption."

Book-Entry Only

Metropolitan will issue the 2015A Bonds as fully registered bonds and will register the 2015A Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2015A Bonds. Purchasers will not receive certificates representing 2015A Bonds purchased by them. Metropolitan will pay principal of and interest on the 2015A Bonds directly to DTC as the registered owner of the 2015A Bonds. Upon receipt of payments of principal and interest, DTC is obligated to remit such payments of principal and interest to the Participants for subsequent disbursement to the Beneficial Owners of the 2015A Bonds. See Appendix D for further information with respect to DTC and its book-entry system.

Security for the 2015A Bonds

The 2015A Bonds are limited obligations of Metropolitan payable as to principal, redemption premium, if any, and interest solely from and secured solely by a pledge of and a lien and charge upon Net Operating Revenues. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operation and Maintenance Expenditures as described herein. The 2015A Bonds when issued will be payable on a parity with Metropolitan's other Parity Bonds. As of November 1, 2015, approximately $4.03 billion aggregate principal amount of Parity Bonds were outstanding. Metropolitan will also pay the principal of, redemption premium, if any, and interest on the 2015A Bonds on a parity with its Parity Obligations at any time outstanding. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS."

Metropolitan has established reserve funds for some of the Series of outstanding Bonds. Metropolitan will not fund a reserve fund for the 2015A Bonds. Amounts held or to be held in a reserve fund or account established for any other Series of Bonds or any Reserve Fund Credit Policy for any other Series of Bonds will not be available to pay principal of, redemption premium, if any, or interest on the 2015A Bonds.

Rate Covenant

Metropolitan has covenanted under the Master Resolution that it will prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in the estimates, will provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority: (1) Operation and Maintenance Expenditures; (2) the interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds and Parity Obligations as they become due and payable; (3) all other payments required for compliance with the Master Resolution or any Supplemental Resolution; and (4) all other payments required to meet any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from the Net Operating Revenues.

"Water System" means the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Rate Covenant."

Additional Indebtedness

Metropolitan has covenanted in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, premium, if any, or interest over the 2015A Bonds, Parity Bonds or Parity Obligations.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on a parity with the 2015A Bonds, the Parity Bonds and existing Parity Obligations to finance, or in connection with the financing of, the costs of improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Resolution. Metropolitan may also incur obligations junior and subordinate to the 2015A Bonds, any Parity Bonds or Parity Obligations. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Additional Indebtedness" and "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Subordinate Obligations."

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with Metropolitan's obligation to pay principal of and interest on the 2015A Bonds, Parity Bonds and other Parity Obligations. See Appendix A under the caption "METROPOLITAN EXPENDITURES—Variable Rate and Swap Obligations."

See the caption "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO—Anticipated Financings" for a discussion of potential additional parity obligations, including a working capital facility for up to $400 million, that Metropolitan is currently considering entering into.

Continuing Disclosure

Metropolitan has agreed to provide with respect to the 2015A Bonds, or to cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (the "EMMA System"), certain annual financial information and operating data relating to Metropolitan and, in a timely manner, notice of certain events. These covenants have been made in order to assist the Underwriters named on the cover page hereof in complying with Rule 15c2-12, as amended (the "Rule"), adopted by the U.S.

Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended. See the caption "CONTINUING DISCLOSURE" and Appendix G.

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

Miscellaneous

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

OFFICIAL STATEMENT

$208,255,000
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
WATER REVENUE BONDS, 2015 AUTHORIZATION SERIES A

INTRODUCTION

General

This Official Statement (which includes the cover and inside front cover page hereof, the Summary Statement and all appendices hereto) provides information concerning The Metropolitan Water District of Southern California ("Metropolitan") in connection with the sale by Metropolitan of its $208,255,000 aggregate principal amount of Water Revenue Bonds, 2015 Authorization Series A (the "2015A Bonds").

Metropolitan is issuing the 2015A Bonds pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), and Resolution 8329 adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 9197 adopted on November 10, 2015 (the "Twenty-First Supplemental Resolution and, together with the Master Resolution, the "Resolutions"). The voters in Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Bonds issued by Metropolitan pursuant to the Resolutions are referred to in this Official Statement as the "Bonds."

Metropolitan is issuing its 2015A Bonds for the purpose of providing funds to pay certain costs of acquisition, construction and improvements to the Water System and to pay the costs of issuance of the 2015A Bonds. See the caption "ESTIMATED SOURCES AND USES OF FUNDS."

The 2015A Bonds when issued will be payable on a parity with Metropolitan's outstanding Bonds previously issued and any additional Bonds payable on a parity that Metropolitan may hereafter issue ("Parity Bonds"). As of November 1, 2015, approximately $4.03 billion aggregate principal amount of Metropolitan's Bonds were outstanding.

Metropolitan has established reserve funds for some of the Series of outstanding Bonds. Metropolitan will not fund a reserve fund for the 2015A Bonds. Amounts held or to be held in a reserve fund or account established for any other Series of Bonds or any Reserve Fund Credit Policy for any other Series of Bonds will not be used or drawn upon to pay principal of, redemption premium, if any, or interest on the 2015A Bonds.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and may incur other obligations ("Parity Obligations") payable and secured on a parity with the 2015A Bonds, the Parity Bonds and existing Parity Obligations to finance, or in connection with the financing of, the costs of improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Resolution. Metropolitan may also incur obligations junior and subordinate to the 2015A Bonds and any Parity Bonds or Parity Obligations. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Additional Indebtedness" and "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Subordinate Obligations." See also the caption "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO—Anticipated Financings."

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with the 2015A Bonds, Parity Bonds and other Parity Obligations. See the caption "SECURITY AND SOURCES OF

PAYMENT FOR THE 2015A BONDS—Parity Bonds and Parity Obligations" and Appendix A under the caption "METROPOLITAN EXPENDITURES—Variable Rate and Swap Obligations."

Metropolitan has covenanted in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2015A Bonds, the Parity Bonds or the Parity Obligations. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Additional Indebtedness."

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

Changes from the Preliminary Official Statement

The Preliminary Official Statement dated December 3, 2015 relating to the 2015A Bonds included Metropolitan's fiscal year 2014-15 financial statements (the "Financial Statements") with its Independent Auditor's Report dated October 19, 2015 as Appendix B. The Preliminary Official Statement also included a description of the matters relating to the court decision entitled "*San Diego County Water Authority v. Metropolitan Water District of Southern California, et al*." See pages A-43 through A-45 in Appendix A under the caption "METROPOLITAN REVENUES—Litigation Challenging Rate Structure." Metropolitan has decided to add a description of this court decision in Note 15 to the Financial Statements. Such description is set forth below and is included in the Financial Statements attached to this Official Statement, together with the Independent Auditor's Report of Metropolitan's external auditor dated October 19, 2015 with an additional date of November 19, 2015 to reflect the inclusion of the additional note. Except as described in this paragraph, no other changes have been made to the Financial Statements set forth in Appendix B. The additional paragraph in Note 15 to the Financial Statements is as follows:

> "On November 18, 2015, the Superior Court of California, County of San Francisco issued the Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. The decision finds in favor of SDCWA on both claims and that SDCWA is entitled to damages in the amount of \$188,295,602. In addition, the trial court granted SDCWA's motion for prejudgment interest at the statutory rate of 10% on these damages. The prejudgment interest award through the end of September 2015 is \$44,139,469. On November 19, 2015, Metropolitan filed a Notice of Appeal of the Judgment and Writ in each case. See further discussion of this matter in footnote 9(h), Commitments and Contingencies – Claims and Litigation."

DESCRIPTION OF THE 2015A BONDS

General

Metropolitan will date the 2015A Bonds the date of their delivery. The 2015A Bonds will mature in the principal amounts on the dates and in the years, and bear interest at the respective rates of interest per annum, as set forth on the inside front cover page hereof. Interest on the 2015A Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Metropolitan will issue the 2015A Bonds as fully registered bonds in denominations of $5,000 or any integral multiple thereof, in book-entry only form, and will register the 2015A Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). See the caption "—Book-Entry Only System" and Appendix D.

Metropolitan will pay interest on the 2015A Bonds on July 1, 2016 and each January 1 and July 1 thereafter. Metropolitan will pay interest on the 2015A Bonds on each interest payment date to the registered owners thereof as of the close of business on the Record Date. "Record Date" means, with respect to the 2015A Bonds, the close of business on the fifteenth day of each month preceding an interest payment date.

Book-Entry Only System

Metropolitan will issue the 2015A Bonds as fully registered bonds in the name of Cede & Co., as nominee of DTC. The 2015A Bonds will be available to Beneficial Owners (as such term is defined in Appendix D) only under the book-entry system maintained by DTC. Beneficial Owners of 2015A Bonds will not receive physical certificates representing their interests in the 2015A Bonds. So long as the 2015A Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners will mean Cede & Co., and will not mean the ultimate purchasers of the 2015A Bonds. Metropolitan will pay principal of and redemption premium, if any, and interest on the 2015A Bonds directly to DTC or Cede & Co. so long as DTC or Cede & Co. is the registered owner of the 2015A Bonds. Disbursements of such payments to DTC's Direct Participants is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC's Direct Participants and Indirect Participants (collectively, the "Participants"). See Appendix D.

Metropolitan and the Fiscal Agent have no responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any Participant with respect to any beneficial ownership interest in the 2015A Bonds; (ii) the delivery to any Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the 2015A Bonds; (iii) the payment to any Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal of or interest on, the 2015A Bonds; (iv) any consent given by DTC or its nominee as Owner; or (v) if applicable, the selection by DTC or any Participant of any Beneficial Owners to receive payment if the 2015A Bonds are redeemed in part. See Appendix D – "BOOK–ENTRY ONLY SYSTEM."

Redemption

Optional Redemption. The 2015A Bonds maturing on or after July 1, 2026 will be subject to call and redemption prior to maturity, at the option of Metropolitan, as a whole or in part, in amounts of $5,000 and any integral multiple thereof, on any date on or after July 1, 2025 at a redemption price equal to 100% of the principal amount of the 2015A Bonds to be redeemed, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The 2015A Bonds maturing on July 1, 2040 will be subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2037 and on each July 1 thereafter through and including July 1, 2040, 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 below.

Redemption Date (July 1)	***Principal Amount***
2037	$10,325,000
2038	11,535,000
2039	12,350,000
2040†	14,510,000

† Final Maturity.

The 2015A Bonds maturing on July 1, 2045 will be subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2041 and on each July 1 thereafter through and including July 1, 2045, 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 below.

Redemption Date (July 1)	***Principal Amount***
2041	$3,965,000
2042	4,125,000
2043	4,295,000
2044	4,470,000
2045†	4,650,000

† Final Maturity.

SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS

General

Metropolitan's obligation to pay principal of and interest on the 2015A Bonds is a limited obligation of Metropolitan payable solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues and the other funds, assets and security described under the Resolutions. See Appendix C. As defined in the Master Resolution:

"Net Operating Revenues" are Operating Revenues less Operation and Maintenance Expenditures paid from Operating Revenues.

"Operating Revenues" are all revenues received by Metropolitan from charges for the sale and availability of water.

"Operation and Maintenance Expenditures" are the necessary expenditures for operating and maintaining the properties, works and facilities of Metropolitan, including expenditures for such charges as may be payable by Metropolitan under the State Water Contract and the Devil Canyon-Castaic Contract, which charges constitute operation, maintenance, power and replacement charges; any necessary contributions to medical, health, retirement or other similar benefits of Metropolitan employees and annuitants; and such other expenditures of Metropolitan generally classified as operating and maintenance expenditures, excluding any charges for depreciation or amortization. The State Water Contract and the Devil Canyon-Castaic Contract are discussed in Appendix A under the caption "METROPOLITAN EXPENDITURES—State Water Contract Obligations."

Payment of capital costs and some other payments under the State Water Contract and the Devil Canyon-Castaic Contract are subordinate to the obligation of Metropolitan to pay Operation and Maintenance Expenditures and debt service on the 2015A Bonds, the Parity Bonds and the Parity Obligations. Accordingly, the debt service coverage on the 2015A Bonds, the Parity Bonds and the Parity Obligations does not take into account such expenses. See Appendix A under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENSES."

The 2015A Bonds are limited obligations of Metropolitan payable as to principal and redemption premium, if any, and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. The 2015A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2015A Bonds, redemption premium, if any, or the interest thereon. The obligation to pay the principal of and redemption premium, if any, and interest on the 2015A Bonds

does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues.

Rate Covenant

Metropolitan has covenanted in the Master Resolution that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System (defined in the Resolutions as the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water) which, after making allowances for contingencies and error in estimates, will provide Operating Revenues, together with any Additional Revenues (i.e., interest, profits and other income received from the investment of any moneys of Metropolitan and other revenues of Metropolitan (other than Operating Revenues) to the extent available to pay debt service on the 2015A Bonds, the Parity Bonds and the Parity Obligations), at least sufficient to pay the following amounts in the order set forth:

1. Operation and Maintenance Expenditures;

2. Interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds and Parity Obligations as the same become due and payable;

3. All other payments required for compliance with the Master Resolution or any Supplemental Resolution; and

4. All other payments required to meet any other obligations of Metropolitan that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2015A Bonds.

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

The Budget Control Act of 2011 (the "Budget Control Act") provided for increases in the federal debt limit and established procedures designed to reduce the federal budget deficit. The Budget Control Act provided that a failure to reduce the deficit would result in sequestration: automatic, generally across-the-board spending reductions. These reductions began on March 1, 2013 pursuant to an executive order that reduced budgetary authority for expenditures subject to sequestration, including subsidies for Build America Bonds. Pursuant to this executive order, the approximately $6.64 million Interest Subsidy Payment that Metropolitan was to receive on or about July 1, 2013 in connection with its Build America Bonds was reduced by 8.7%, or $578,000, to $6.06 million. Refund payments processed in federal fiscal years 2014 and 2015 were reduced by the federal fiscal year 2016 sequestration rate of 7.3%, and refund payments processed on or after October 1, 2015 and on or before September 30, 2016 are anticipated to be reduced by the federal fiscal year 2016 sequestration rate of 6.8%. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change. Metropolitan can offer no assurances as to future Interest Subsidy Payments and expects that once it receives less than any full 35% Interest Subsidy Payment, the United States Treasury will not thereafter reimburse Metropolitan for payments not made.

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

The Twenty-First Supplemental Resolution to the Master Resolution provides for the establishment of a Reserve Fund for Bonds issued thereunder to be funded in an amount equal to the Bond Reserve Requirement for such Bonds as set forth in the applicable bond purchase contract. Metropolitan has determined that the Bond Reserve Requirement for the 2015A Bonds will be established at $0 pursuant to the Bond Purchase Contract (as such term is defined herein) and no Reserve Fund for the 2015A Bonds will be established or maintained. **Amounts held or to be held in a reserve fund or account established for any other Series of Bonds or any Reserve Fund Credit Policy for any other Series of Bonds will not be used or drawn upon to pay principal of, redemption premium, if any, or interest on the 2015A Bonds.**

Parity Bonds and Parity Obligations

As of November 1, 2015, Metropolitan had approximately $4.03 billion aggregate principal amount of Bonds outstanding. See the caption "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO—Anticipated Financings" and Appendix A under the caption "METROPOLITAN EXPENDITURES." Metropolitan's outstanding Bonds include, among other things, Index Tender Bonds, Term Mode Bonds and Self-Liquidity Bonds, as more fully described in Appendix A under the caption "METROPOLITAN EXPENDITURES—Variable Rate and Swap Obligations" and "—Other Revenue Obligations." Metropolitan has entered into, and may in the future enter into, one or more revolving credit agreements for purposes of paying the purchase price of any Self-Liquidity Bonds. Metropolitan has secured, and may in the future secure, its obligation to pay principal and interest under any revolving credit agreement as a Parity Obligation under the Master Resolution. See Appendix A under the caption "METROPOLITAN EXPENDITURES—Variable Rate and Swap Obligations" and "—Revolving Credit Agreements" for information regarding the revolving credit agreement to which Metropolitan is a party. Metropolitan also has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with Metropolitan's obligation to pay principal of and interest on the 2015A Bonds, Parity Bonds and other Parity Obligations. The payments by Metropolitan are secured, and the interest rate swap agreements entail risks to Metropolitan, as described in Appendix A under the caption "METROPOLITAN EXPENDITURES—Variable Rate and Swap Obligations."

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on a parity with the 2015A Bonds, the Parity Bonds and existing Parity Obligations, subject to the limitations, terms and conditions of the Master Resolution. See the caption "—

Additional Indebtedness" below and Appendix C under the caption "THE MASTER RESOLUTION—Covenants—Limits on Additional Debt."

See the caption "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO—Anticipated Financings" and 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.

Additional Indebtedness

Metropolitan has covenanted in the Master Resolution that no additional indebtedness evidenced by bonds, notes or any other evidences of indebtedness payable out of its Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2015A Bonds, the Parity Bonds or the Parity Obligations.

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

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

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

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

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

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 November 1, 2015, Metropolitan's outstanding Bonds and other indebtedness, in the aggregate amount of approximately $4.15 billion, constituted approximately 0.17% of the fiscal year 2015-16 taxable assessed valuation of approximately $2,451 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, 2015 were valued at approximately $6.88 billion. The aggregate amount of Bonds outstanding as of November 1, 2015 was approximately $4.03 billion.

Subordinate Obligations

Under the Resolutions, Metropolitan may issue obligations junior and subordinate to the Bonds, including the 2015A Bonds, and the Parity Obligations, subject to the provisions of the Act. Metropolitan currently is authorized to issue up to $400,000,000 of Commercial Paper Notes payable from Net Operating Revenues on a basis subordinate to the Bonds and the Parity Obligations. Although no Commercial Paper Notes are currently outstanding, the authorization remains in full force and effect and Metropolitan may issue Commercial Paper Notes from time to time.

In addition, Metropolitan obtained a $20 million California Safe Drinking Water Revolving Fund Loan (the "California Safe Drinking Water Revolving Fund Loan") in 2003 at an interest rate of 2.39% per annum to reimburse construction costs for oxidation retrofit facilities at the Mills Filtration Plant in Riverside County. Payments on the loan commenced on January 1, 2005 and are scheduled to continue through 2025. The loan payment obligation is subordinate to the Bonds and the Parity Obligations. The outstanding principal balance on the California Safe Drinking Water Revolving Fund Loan as of November 1, 2015 was approximately $10.2 million.

Under some circumstances, some interest rate swap agreements are subject to early termination, in which event Metropolitan may be obligated to make a substantial payment to the applicable counterparty. Some of such termination payments are secured on a basis subordinate in payment priority to the Bonds, including the 2015A Bonds, and the Parity Obligations. See Appendix A under the caption "METROPOLITAN EXPENDITURES—Variable Rate and Swap Obligations."

Flow of Funds

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

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

Second, to the Bond Service Fund, an amount equal to: (A) (1) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of the interest becoming due and payable on the next interest payment date for all such Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Bond Service Fund from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such account; (2) 110% of the aggregate amount of interest, estimated by the Treasurer of Metropolitan in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness (provided that such amount may be reduced and shall be increased under certain circumstances, as set forth in the Resolutions); and (3) with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of Metropolitan for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations; and (B) (i) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months; plus (ii) one-twelfth of the aggregate yearly amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the Board irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. Such amount is subject to adjustment as set forth in the Resolutions, in the event Term Bonds are purchased from the Bond Service Fund, redeemed by Metropolitan or deposited by Metropolitan with the Fiscal Agent. No deposit need be made into the Bond Service Fund if: (I) the amount contained therein is at least equal to the interest to become due and payable on the estimated interest payment dates falling within the next six months upon all of the Bonds issued under the Master Resolution and then Outstanding but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates; and (II) there shall be in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Master Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. If Metropolitan issues or incurs any Parity Obligations, the payments required to be placed in any debt service fund or sinking fund to pay the principal or Accreted Value of, or mandatory sinking fund payments or interest with respect to, such Parity Obligations will rank and be made on a parity with the payments required to be placed in the Bond Service Fund.

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

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

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

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

See Appendix C under the caption "MASTER RESOLUTION—Water Revenue Fund."

FINANCING PLAN

A portion of the proceeds of the 2015A Bonds is expected to be used to finance the acquisition and construction of improvements to the Water System through the end of calendar year 2016, and to reimburse Metropolitan for Water System capital expenditures that were previously incurred. Metropolitan expects to comply with all governmental approval, public bidding and other permitting requirements for each component of the improvements as required by law.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of proceeds of the 2015A Bonds are shown below:

Estimated Sources of Funds(1):	
Principal Amount of 2015A Bonds	$208,255,000
Plus Original Issue Premium	42,688,077
Total	$250,943,077
Estimated Uses of Funds(1):	
Deposit to Construction Fund	$250,000,000
Underwriters' Discount	584,876
Costs of Issuance(2)	358,201
Total	$250,943,077

(1) Rounded to nearest dollar.
(2) Includes rating agency fees, Financial Advisor fees, legal fees, printing costs and other costs of issuance.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Metropolitan is a metropolitan water district created in 1928 by a vote of the electorates of eleven southern California cities under authority of the Act to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member agencies. The members of Metropolitan are not required to purchase water from Metropolitan. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. For a listing of the members and information about Metropolitan's service area, see Appendix A. For a discussion of selected demographic and economic information with respect to Metropolitan's service area, see Appendix E. For information about the finances and operations of Metropolitan, see Appendices A and B.

OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO

Operating Revenues

Water sales comprise Metropolitan's principal source of revenues. Water sales revenues include all revenues received by Metropolitan from charges for the sale and availability of water, including, without limitation, Metropolitan's water rates, readiness-to-serve charge, standby charge, and capacity charge. See Appendix A under the captions "METROPOLITAN REVENUES—Water Sales Revenues," "METROPOLITAN REVENUES—Rate Structure" and "METROPOLITAN REVENUES—Additional Revenue Components." In meeting the requirements of the Resolutions related to rates and additional obligations, Metropolitan may include in its calculations, to the extent available, revenues which include, among other things, investment income and income from the sale of energy from Metropolitan's hydroelectric power recovery plants and Interest Subsidy Payments that may be received by Metropolitan in connection with any existing and future Build America Bonds. No assurances are provided that Metropolitan will receive all or any portion of the interest subsidy payments, which are subject to legislative changes by the United States Congress and conditioned upon Metropolitan's compliance with certain covenants with respect to the Build

America Bonds, including the use and investment of proceeds thereof and the use of property financed thereby. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Rate Covenant." Ad valorem taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the revenue bonds issued by Metropolitan, including the 2015A Bonds. For a description of "Operating Revenues" and the effect of Operation and Maintenance Expenditures on the amount of revenues available for payment of the 2015A Bonds, see the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS." See also Appendix C. For information about Metropolitan's revenues and expenses, including historical and projected revenues and expenses, see Appendix A under the captions "METROPOLITAN REVENUES," "METROPOLITAN EXPENDITURES" and "HISTORICAL AND PROJECTED REVENUES AND EXPENSES." See also Metropolitan's financial statements contained in Appendix B.

Existing Parity Bonds and Parity Obligations Payable From Net Operating Revenues

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2015A Bonds, the Parity Bonds or the Parity Obligations. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Additional Indebtedness."

Metropolitan has issued Parity Bonds pursuant to the applicable Resolutions, which are outstanding in the amounts listed in Appendix A under the caption "METROPOLITAN EXPENDITURES." Principal of and interest on the 2015A Bonds will be payable from Net Operating Revenues on a parity with the Parity Bonds and the Parity Obligations.

Anticipated Financings

Metropolitan anticipates that it will issue bonds, notes or other evidences of indebtedness under the Master Resolution in addition to the 2015A Bonds and the outstanding Parity Bonds and Parity Obligations to finance improvements to its Water System and to refund outstanding revenue bonds or general obligation bonds from time to time depending on market conditions and other factors. The current Capital Investment Plan is described in Appendix A under the caption "CAPITAL INVESTMENT PLAN."

The Master Resolution permits subsequent authorizations of additional Bonds as described herein. The Resolutions establish limitations on the issuance of additional obligations payable from Net Operating Revenues on a parity with the Outstanding Bonds. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Additional Indebtedness." Metropolitan may also issue obligations junior and subordinate to the 2015A Bonds, subject to the limitations in the Act.

On July 14, 2015, Metropolitan's Board authorized the use of tax-exempt bond proceeds and other forms of indebtedness to reimburse up to $300 million of Capital Investment Plan expenditures for projects that were initially funded from Metropolitan's General Fund and the Replacement and Refurbishment Fund. On October 13, 2015, Metropolitan's Board adopted an ordinance (the "2015 Revenue Bond Ordinance") determining that the interests of Metropolitan require the use of up to an aggregate principal amount of $500 million of revenue bonds to fund a portion of its Capital Investment Plan costs through fiscal year 2017-18. On November 10, 2015, the Board adopted the Twenty-First Supplemental Resolution, which authorized the issuance of the 2015A Bonds as the first series of revenue bonds under the 2015 Revenue Bond Ordinance to reimburse prior expenditures for the Capital Investment Plan as described above and to pay for future capital program expenditures. The issuance of the balance of the $500 million aggregate principal amount of revenue bonds under the 2015 Revenue Bond Ordinance would be subject to board approval in future supplemental bond authorizations.

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

In addition, Metropolitan is considering entering into a working capital facility for up to $400 million that could be accessed on a revolving basis to fund capital expenditures, provide reimbursement for capital expenditures, refund outstanding obligations, or as a source for working capital on a short-term basis. If such a facility is entered into, it is expected to be payable from Net Operating Revenues on a parity with the 2015A Bonds. There can be no assurance that such a facility will be entered into, or as to the timing thereof.

Debt Service Requirements

The following table shows the estimated annual debt service requirements for Metropolitan's outstanding Bonds and the 2015A Bonds. Such debt service is not net of the Interest Subsidy Payments that Metropolitan expects to receive from the United States Treasury in connection with its outstanding Build America Bonds, subject to sequestration as described above under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Rate Covenant."

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

Fiscal Year Ending June 30	*Outstanding Bonds Debt Service*[(1)(2)(3)]	*2015A Bonds Principal*	*2015A Bonds Interest*[(4)]	*Total*[(4)]
2016	$ 309,709,974	$ -	$ -	$ 309,709,974
2017	305,027,800	-	10,594,277	315,622,077
2018	319,553,205	-	10,197,700	329,750,905
2019	311,564,391	1,990,000	10,147,950	323,702,341
2020	305,517,905	2,145,000	10,044,575	317,707,480
2021	296,204,295	2,585,000	9,926,325	308,715,620
2022	292,386,352	2,535,000	9,798,325	304,719,677
2023	286,341,717	3,740,000	9,641,450	299,723,167
2024	286,258,394	4,020,000	9,447,450	299,725,844
2025	269,037,942	15,740,000	8,953,450	293,731,392
2026	271,895,723	13,615,000	8,219,575	293,730,298
2027	271,365,139	14,855,000	7,507,825	293,727,964
2028	267,245,940	15,745,000	6,742,825	289,733,765
2029	205,866,624	61,060,000	4,822,700	271,749,324
2030	262,285,894	-	3,296,200	265,582,094
2031	253,844,406	-	3,296,200	257,140,606
2032	254,814,968	-	3,296,200	258,111,168
2033	257,210,578	-	3,296,200	260,506,778
2034	257,455,482	-	3,296,200	260,751,682
2035	257,719,234	-	3,296,200	261,015,434
2036	258,049,803	-	3,296,200	261,346,003
2037	257,006,287	-	3,296,200	260,302,487
2038	183,453,854	10,325,000	3,038,075	196,816,929
2039	113,853,020	11,535,000	2,491,575	127,879,595
2040	111,641,748	12,350,000	1,894,450	125,886,198
2041	109,154,195	14,510,000	1,222,950	124,887,145
2042	-	3,965,000	780,900	4,745,900
2043	-	4,125,000	619,100	4,744,100
2044	-	4,295,000	450,700	4,745,700
2045	-	4,470,000	275,400	4,745,400
2046	-	4,650,000	93,000	4,743,000
Total[(4)]	$ 6,574,464,870	$ 208,255,000	$ 153,280,177	$ 6,936,000,047

(1) For the $493.6 million of variable rate bonds associated with particular interest rate swap agreements, interest is calculated at the assumed fixed payor rates of interest to be paid under their respective interest rate swap agreements. For the remaining $534 million of variable rate debt, interest is calculated at an assumed interest rate of 1.80% per annum. Actual rates may differ from those set forth in this footnote.

(2) Indicated amounts reflect the stated interest rate on Metropolitan's Water Revenue Bonds 2008 Authorization, Series C (Taxable Build America Bonds), Metropolitan's Water Revenue Bonds 2008 Authorization, Series D (Taxable Build America Bonds) and the 2010 Authorization, Series A (Taxable Build America Bonds), and have not been reduced to reflect the Interest Subsidy Payments that Metropolitan expects to receive from the United States Treasury in connection with such Bonds. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Rate Covenant."

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

(4) Rounded.

Source: Metropolitan.

Summary of Net Operating Revenues

For a description of actual and projected Net Operating Revenues available for debt service on the outstanding Parity Bonds and Parity Obligations of Metropolitan, including the 2015A Bonds and additional Bonds that Metropolitan projects it will issue, see the table included under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in Appendix A.

See also Appendix A under the caption "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES—Water Sales Revenues."

Debt Service Coverage

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

Metropolitan's Investment Portfolio

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

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

ACCOUNTING AND BUDGET MATTERS

Accounting Policies

Metropolitan operates as a utility enterprise. A summary of Metropolitan's significant accounting policies is contained in Note 1 to Metropolitan's accrual basis financial statements for the fiscal years ended June 30, 2015 and June 30, 2014. See Appendix B.

Budgetary Accounting Method

Metropolitan's budgeting and financial reporting is done on a modified accrual basis. The modified accrual basis of accounting that Metropolitan uses varies from the accrual basis of accounting in the following respects: (i) depreciation and amortization are not recorded; and (ii) payments of debt service are recorded when due and payable. Under this modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus, water sales revenues are recognized in the month in which the water is sold 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 Financial Statements of Metropolitan for the Fiscal Years ended June 30, 2015 and June 30, 2014 are included in Appendix B. The Financial Statements have been audited by Macias Gini & O'Connell LLP, Metropolitan's independent auditor (the "Auditor"), as stated in its Independent Auditor's Report, dated October 19, 2015, which is included in Appendix B. Metropolitan has not requested the consent of the Auditor, nor has the Auditor consented, to the inclusion of the Financial Statements or the Independent Auditor's Report in Appendix B. The Auditor has not been engaged to perform, and has not performed, since the date of its Independent Auditor's Report, any procedures on the Financial Statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

The financial and statistical information contained in this Official Statement is included herein for informational purposes only and a complete review of the Financial Statements and the footnotes thereto set forth in Appendix B is integral to an understanding of such information. No independent auditor has audited the financial tables or other data included in this Official Statement, other than the audited financial statements for the fiscal years ended June 30, 2015 and June 30, 2014 included in Appendix B.

Metropolitan's Basic Financial Statements for the three months ended September 30, 2015 and 2014 (unaudited) are also included in Appendix A.

Budget System

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

RISK FACTORS

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

Limited Obligations

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

Net Operating Revenues may not be realized by Metropolitan in amounts sufficient to pay principal of, redemption premium, if any, and interest on the 2015A Bonds and all other Outstanding Bonds. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of Net Operating Revenues that Metropolitan receives. 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 Operation and Maintenance Expenditures and debt service.

Risks Relating to Water Sales

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 water. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales. See Appendix A under the caption "REGIONAL WATER RESOURCES—Local Water Supplies." In recent years supplies and demands have been affected by drought, water use restrictions, economic conditions, weather conditions and environmental laws, regulations and judicial decisions, as described below. Future water sales will be subject to variability due to these and other factors.

Water Supply Shortages. Metropolitan's principal sources of water are the State Water Project and the Colorado River, both of which are subject to drought conditions that in recent years have contributed to lower overall water deliveries to Metropolitan. While Metropolitan plans and manages its supplies to account for normal occurrences of drought conditions, recent drought conditions and court-ordered restrictions in connection with the State Water Project, including but not limited to restrictions under the Federal and California Endangered Species Acts (the "ESAs"), have placed additional limitations on Metropolitan's ability to obtain and deliver water supplies to its member agencies. See Appendix A under the caption "METROPOLITAN'S WATER SUPPLY—State Water Project—Endangered Species Act Considerations." For additional information regarding the impact of current drought conditions on Metropolitan's water supply, see 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 caption "METROPOLITAN'S WATER SUPPLY—Drought Response Actions," "METROPOLITAN'S WATER SUPPLY—Water Transfer, Storage and Exchange Programs" and "METROPOLITAN'S WATER SUPPLY—Water Surplus and Drought Management Plan." 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 "METROPOLITAN'S WATER SUPPLY—Water Supply Allocation Plan."

Economic Conditions. Retail level water use is affected by economic conditions. Economic recession and its associated impacts, such as job losses, income losses, and housing foreclosures or vacancies, affect aggregate levels of water use and Metropolitan's water sales. See Appendix E.

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

Environmental Considerations. Current and proposed environmental laws, regulations and judicial decisions, including court ordered restrictions and Federal and State administrative determinations relating to species on the "endangered" or "threatened" lists under the Federal or California ESAs, have materially affected the operations of the State Water Project and the water deliveries therefrom. Metropolitan cannot predict when and how additional laws, regulations, judicial decisions and other determinations (including listings of additional species under the Federal or California ESAs) will affect State Water Project and

Colorado River operations, the water deliveries therefrom and Metropolitan's operations in the future by requiring, among other things, additional export reductions, releases of additional water from storage or other operational changes impacting water supply operations. Any of these laws, regulations and judicial decisions and other official determinations relating to Metropolitan's water supply could have a materially adverse impact on the operation of the State Water Project and Colorado River operations and Metropolitan's water reserves. See Appendix A under the captions "METROPOLITAN'S WATER SUPPLY—State Water Project" and "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct."

Actions to Manage Risks Relating to Water Sales. Drought, weather conditions, regional economy and environmental considerations referred to above in recent years have contributed to lower water deliveries at a higher cost to Metropolitan. A reduction in water deliveries to Metropolitan's member agencies might adversely affect its Net Operating Revenues and Metropolitan may be required to further increase its rates and charges. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Rate Covenant." To address supply shortages due to prolonged drought conditions and environmental restrictions, Metropolitan may pursue additional water transfers and investments in capital projects. However, these actions and expenditures may not result in reliable alternate supplies of water at costs that, together with other available supplies and storage, will generate sufficient Net Operating Revenues, which may require Metropolitan to increase its rates and charges. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS—Rate Covenant." See also Appendix A under the captions "METROPOLITAN'S WATER SUPPLY" and "CAPITAL INVESTMENT PLAN."

Earthquakes, Wildfires and Other Natural Disasters

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

Limitations on Remedies

Upon the occurrence and continuance of an Event of Default under the Resolutions, the Owners of the Bonds (including the 2015A Bonds) have limited remedies and, except for limited circumstances, the Owners of the Bonds do not have the right to accelerate the payment of principal of or interest on the Bonds. See Appendix C under the caption "THE MASTER RESOLUTION—Defaults and Remedies under the Master Resolution."

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

Tax Law Proposals

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

LITIGATION

No litigation is pending, or, to the best knowledge of Metropolitan, threatened, questioning: (a) the existence of Metropolitan, or the title of the officers of Metropolitan to their respective offices; (b) the validity of the 2015A Bonds or the power and authority of Metropolitan to issue the 2015A Bonds; or (c) the authority of Metropolitan to fix, charge and collect rates for the sale of water by Metropolitan as provided in the Resolutions.

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

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

TAX MATTERS

In the opinion of Co-Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2015A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Co-Bond Counsel, interest (and original issue discount) on the 2015A Bonds is exempt from State of California personal income tax. Co-Bond Counsel notes that, with respect to corporations, interest on the 2015A Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

In the opinion of Co-Bond Counsel, the difference between the issue price of a 2015A Bond (the first price at which a substantial amount of the 2015A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2015A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner’s basis in the applicable 2015A Bond. The amount of original issue discount that accrues to the Beneficial Owner of the 2015A Bonds is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The amount by which a 2015A Bond Owner’s original basis for determining loss on sale or exchange in the applicable 2015A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the “Code”); such amortizable bond premium reduces the 2015A Bond Owner’s basis in the applicable 2015A Bond (and the amount of tax exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2015A Bond premium may result in a 2015A Bond Owner realizing a taxable gain when a 2015A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2015A Bond to the Owner. Purchasers of the 2015A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Co-Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2015A Bonds (including any original issue discount) is based upon certain representations of fact and certifications made by Metropolitan, the Underwriters and others, and is subject to the condition that Metropolitan comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2015A Bonds to assure that interest on the 2015A Bonds (including any original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2015A Bonds (including any original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2015A Bonds. Metropolitan will covenant to comply with all such requirements.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax exempt bond issues, including both random and targeted audits. It is possible that the 2015A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2015A Bonds might be affected as a result of such an audit of the 2015A Bonds (or by an audit of similar obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2015A Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2015A Bonds or their market value.

Co-Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Co-Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolutions and the Tax Certificate relating to the 2015A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Co-Bond Counsel is provided with respect thereto. Co-Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any 2015A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation, or Curls Bartling P.C.

SUBSEQUENT TO THE ISSUANCE OF THE 2015A BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2015A BONDS OR THE MARKET VALUE OF THE 2015A BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2015A BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2015A BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE 2015A BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2015A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2015A BONDS.

Although Co-Bond Counsel has rendered an opinion that interest on the 2015A Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes provided that Metropolitan continues to comply with certain requirements of the Code, the accrual or receipt of interest on the 2015A Bonds (including any original issue discount) may otherwise affect the tax liability of the recipient. Co-Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the 2015A Bonds.

Should interest on the 2015A Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the 2015A Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Resolutions.

The proposed form of Co-Bond Counsel's opinion with respect to the 2015A Bonds is set forth in Appendix F.

UNDERWRITING

Purchase of the 2015A Bonds

The 2015A Bonds are being purchased by RBC Capital Markets, LLC as representative of itself and the underwriters for the 2015A Bonds listed on the cover hereof (collectively, the "Underwriters"), pursuant to and subject to the conditions to be set forth in the Bond Purchase Contract between Metropolitan and the Underwriters relating to the 2015A Bonds (the " Bond Purchase Contract"). Subject to the terms of the Bond Purchase Contract, the Underwriters will purchase the 2015A Bonds at an aggregate purchase price of $250,358,201.34, which represents the principal amount of the 2015A Bonds of $208,255,000, plus an original issue premium of $42,688,077.05, less an Underwriters' discount of $584,875.71.

The Underwriters may overallot or effect transactions which stabilize or maintain the market price of the 2015A Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The initial public offering prices stated on the inside front cover page of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2015A Bonds to certain dealers (including dealers depositing 2015A Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

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

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

The Underwriters and their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Retail Brokerage Arrangements

The following paragraphs have been provided by Siebert Brandford Shank & Co., L.L.C. and US Bancorp, respectively, as underwriters of the 2015A Bonds. Metropolitan has not reviewed and is not a party to the arrangements referenced below. Metropolitan does not guarantee the accuracy or completeness of the following information, and such information is not to be construed as representations of Metropolitan.

Siebert Brandford Shank & Co., L.L.C. ("SBS") has entered into separate agreements with its affiliate, Muriel Siebert & Co., and with Credit Suisse Securities (USA) for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to the distribution agreement, if applicable to the 2015A Bonds, Muriel Siebert & Co. and/or Credit Suisse Securities (USA) will purchase 2015A Bonds at the original issue price less the selling concession with respect to any 2015A Bonds that Muriel Siebert & Co. and/or Credit Suisse Securities (USA) sells. SBS will share a portion of its underwriting compensation with Muriel Seibert & Co. and/or Credit Suisse Securities (USA).

"US Bancorp" is the marketing name of U.S. Bancorp and its subsidiaries, including U.S. Bancorp Investments, Inc. ("USBII"), which is serving as one of the Underwriters of the 2015A Bonds.

FINANCIAL ADVISOR

Metropolitan has retained Public Resources Advisory Group as a financial advisor to Metropolitan (the "Financial Advisor") in connection with the issuance of the 2015A Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to Metropolitan, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement.

LEGAL MATTERS

Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, and Curls Bartling P.C., Oakland, California, Co-Bond Counsel to Metropolitan, will render their opinion with respect to the 2015A Bonds substantially in the form set forth in Appendix F. Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for Metropolitan by its General Counsel and for the Underwriters by Hawkins Delafield & Wood LLP, Los Angeles, California.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), and Fitch Ratings, Inc. ("Fitch" and, together with Moody's and S&P, the "Rating Agencies") have assigned the 2015A Bonds their long-term ratings of "Aa1", "AAA" and "AA+", respectively. Such credit ratings reflect only the views of the respective Rating Agencies and any desired explanation of the significance of such credit ratings should be obtained from the Rating Agency furnishing the same. 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 credit rating given to the 2015A Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by the Rating Agencies if, in the judgment of the Rating Agencies, circumstances so warrant. Any downward revision or withdrawal of such credit ratings could have an adverse effect on the market price of the 2015A Bonds.

CONTINUING DISCLOSURE

Metropolitan has agreed to execute a continuing disclosure undertaking (the "Continuing Disclosure Undertaking"), which provides for disclosure obligations on the part of Metropolitan for so long as the 2015A Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan will covenant for the benefit of Owners and Beneficial Owners of the 2015A Bonds to provide certain financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Notice Events") in a timely manner not in excess of ten business days after the occurrence of such Notice Event. The

Annual Reports and the notices of Notice Events will be filed with the EMMA System. These covenants will be made to assist the Underwriters of the 2015A Bonds in complying with the Rule. See Appendix G.

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

MISCELLANEOUS

The terms of the 2015A Bonds are set forth in the Resolutions and the Bond Purchase Contract. Copies of such documents may be obtained from the office of the Assistant General Manager/Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012, telephone (213) 217-7121. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Official Statement may be directed to the Assistant General Manager/Chief Financial Officer.

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

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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

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

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

Formation and Purpose

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

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

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

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

Member Agencies

Metropolitan is comprised of 26 member public agencies, including 14 cities, 11 municipal water districts, and one county water authority, which collectively serve the residents and businesses of more than 300 cities and numerous unincorporated communities. Member agencies request water from Metropolitan at various delivery points within Metropolitan's system and pay for such water at uniform rates established by the Board for each class of water service. Metropolitan's water is a supplemental supply for its member agencies, most of whom have other sources of water. See "METROPOLITAN REVENUES—Principal Customers" in this Appendix A for a listing of the ten member agencies with the highest water purchases from Metropolitan during the fiscal year ended June 30, 2015. Metropolitan's member agencies may, from time to time, develop additional sources of water. No member is required to purchase water from Metropolitan, but all member agencies are required to pay readiness-to-serve charges whether or not they purchase water from Metropolitan. See "METROPOLITAN REVENUES—Rate Structure", "—Member Agency Purchase Orders" and "—Additional Revenue Components" in this Appendix A.

The following table lists the 26 member agencies of Metropolitan.

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

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

Service Area

Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. When Metropolitan began delivering water in 1941, its service area consisted of approximately 625 square miles. Its service area has increased by 4,500 square miles since that time. The expansion was primarily the result of annexation of the service areas of additional member agencies.

Metropolitan estimates that approximately 18.5 million people lived in Metropolitan's service area in 2014, based on official estimates from the California Department of Finance and on population distribution estimates from the Southern California Association of Governments ("SCAG") and the San Diego Association of Governments ("SANDAG"). Population projections prepared by SCAG in 2012 and SANDAG in 2010, as part of their planning process to update regional transportation and land use plans, show expected population growth of about 18 percent in Metropolitan's service area between 2010 and 2035. The 2010 Census population estimates are incorporated into SCAG's 2012 projections. The 2010 SANDAG regional growth projections do not incorporate the 2010 Census population estimates. The economy of Metropolitan's service area is exceptionally diverse. In 2014, the economy of the six counties which contain Metropolitan's service area had a gross domestic product larger than all but fifteen nations of the world. Metropolitan has historically provided between 40 and 60 percent of the water used annually within its service area. For additional economic and demographic information concerning the six county area containing Metropolitan's service area, see Appendix E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA."

The climate in Metropolitan's service area ranges from moderate temperatures throughout the year in the coastal areas to hot and dry summers in the inland areas. Annual rainfall in an average year has historically been approximately 13 to 15 inches along the coastal area, up to 20 inches in foothill areas and less than 10 inches inland.

GOVERNANCE AND MANAGEMENT

Board of Directors

Metropolitan is governed by a 38-member Board of Directors. Each member public agency is entitled to have at least one representative on the Board, plus an additional representative for each full five percent of the total assessed valuation of property in Metropolitan's service area that is within the member public agency. Changes in relative assessed valuation do not terminate any director's term. Accordingly, the Board may, from time to time, have more or fewer than 38 directors.

The Board includes business, professional and civic leaders. Directors serve on the Board without compensation from Metropolitan. Voting is based on assessed valuation, with each member agency being entitled to cast one vote for each $10 million or major fractional part of $10 million of assessed valuation of property within the member agency, as shown by the assessment records of the county in which the member agency is located. The Board administers its policies through the Metropolitan Water District Administrative Code (the "Administrative Code"), which was adopted by the Board in 1977. The Administrative Code is periodically amended to reflect new policies or changes in existing policies that occur from time to time.

Management

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

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

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

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

Deena Ghaly, Ethics Officer – Ms. Ghaly was appointed Ethics Officer in November 2012. Ms. Ghaly joined Metropolitan with over 20 years of legal and ethics-related experience. Prior to joining Metropolitan, she served as an administrative law judge for the California Office of Administrative Hearings. She previously was head of enforcement and general counsel for the Los Angeles City Ethics Commission, which administers and enforces the laws regarding campaign contributions, lobbying, and government ethics for the city of Los Angeles. Before moving to Southern California in 2001, Ms. Ghaly lived and worked in New York City, where she headed the labor department in the general counsel's office of a large city agency. Licensed to practice law in California, New York and New Jersey, Ms. Ghaly is knowledgeable in workplace investigations, government ethics, regulatory affairs, and labor and employment matters. She has lectured throughout the nation on various topics, including parallel criminal and administrative prosecution, due process in administrative procedures, and effective internal investigations. Ms. Ghaly earned a bachelor's degree in philosophy from Wellesley College in Massachusetts and a law degree from Cornell Law School.

Gary Breaux, Assistant General Manager/Chief Financial Officer – Mr. Breaux has had extensive experience working for local governments since 1983. From 1994 until joining Metropolitan in October 2011, he served as Director of Finance for East Bay Municipal Utility District ("EBMUD"). At EBMUD, he was responsible for all financial areas, including treasury operations, debt management, rates, internal audit, accounting and reporting, risk management and customer and community services. Prior to joining EBMUD, he was Director of Finance for the City of Oakland, California. A native of Colorado, Mr. Breaux received a Bachelor of Science degree in Business from the University of Colorado in 1977 and a master's degree in Public Administration in 1987 from Virginia Commonwealth University.

Debra Man, Assistant General Manager/Chief Operating Officer – Ms. Man was appointed to this position in December 2003. Ms. Man has worked at Metropolitan since 1986, beginning as an engineer and advancing to Chief of the Planning and Resources Division. As Chief of Planning and Resources she was responsible for major initiatives adopted by Metropolitan's Board, such as the Integrated Water Resources Plan, rate structure, and facility plans for expansion of Metropolitan's distribution system. In 1999, she was appointed as Vice President of Water Transfers and Exchanges, responsible for securing water supplies through agreements and partnerships with other water and agricultural interests in San Joaquin Valley and Southern California and demonstrating Metropolitan's water supply reliability in compliance with current laws. Ms. Man is a registered professional civil engineer in California and Hawaii. She has a master's degree in civil/environmental engineering from Stanford University and a bachelor's degree in civil engineering from the University of Hawaii.

Roger Patterson, Assistant General Manager/Strategic Initiatives – Mr. Patterson was appointed Assistant General Manager in March 2006. He is responsible for overseeing water supply and planning issues, including the Colorado River and State Water Project. He previously served as a consultant to Metropolitan on Colorado River issues. Mr. Patterson was the director of the Nebraska Department of Natural Resources from 1999 to 2005, where he was responsible for water administration, water planning, flood-plain delineation, dam safety and the state databank. Prior to his work in Nebraska, Mr. Patterson spent 25 years with the Bureau of Reclamation, retiring from the Bureau as the Regional Director for the Mid-Pacific Region. He is a registered professional engineer in Nebraska and Colorado, and earned bachelor's and master's degrees in engineering from the University of Nebraska.

Fidencio M. Mares, Interim Assistant General Manager/Chief Administrative Officer – Mr. Mares is the Interim Assistant General Manager/Chief Administrative Officer and is responsible for the strategic direction and management of Metropolitan's administrative functions. His primary responsibilities include managing human resources, information technology, business outreach, real property and administrative services. Prior to joining Metropolitan, Mr. Mares was the owner of the Mares Company, where he served as a consultant to companies in the overall assessment of their management programs and processes. Prior to becoming a consultant, Mares worked both in the private and public sectors, serving as vice president of human resources and corporate communications for Beckham Coulter and as chief administrative officer of BHP/Pacific Resources and President & CEO of Gas Operations. He worked for more than 15 years for The

Gas Company in Hawaii and Southern California Edison Company. A graduate of the California State University, Fresno, he also serves on the National Board of Visitors (Distinguished Graduates) for the University.

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

Employee Relations

The total number of regular full-time Metropolitan employees on October 15, 2015 was 1,771, of whom 1,236 were represented by AFSCME Local 1902, 91 by the Supervisors Association, 290 by the Management and Professional Employees Association and 139 by the Association of Confidential Employees. The remaining 15 employees are unrepresented. The four bargaining units represent 99 percent of Metropolitan's employees. The Memorandum of Understanding ("MOU") with the Association of Confidential Employees covers the period January 1, 2011 through December 31, 2015. The MOUs with the Management and Professional Employees Association and with AFSCME Local 1902 cover the period January 1, 2011 to December 31, 2016. The MOU with the Supervisors Association covers the period September 13, 2011 to December 31, 2016.

Risk Management

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

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

METROPOLITAN'S WATER SUPPLY

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

Metropolitan stores State Water Project and Colorado River supplies in Metropolitan surface water reservoirs and through storage and water transfer agreements. See "—Water Transfer, Storage and Exchange Programs" and "—Storage Capacity and Water in Storage" below.

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" below. 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. See "—Water Surplus and Drought Management Plan" and "—Water Supply Allocation Plan" below.

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— *Endangered Species Act Considerations*" below. 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.

In 2015, California snowpack peaked in January at 17 percent of normal. This was the earliest peak and lowest snowpack in recorded history, resulting in the fourth year of drought in California. Storage levels in State reservoirs remain below normal, including storage levels in Lake Oroville, the principal State Water Project reservoir, and San Luis Reservoir, a critical reservoir south of the Bay-Delta. Consequently, the northern Sierra Nevada runoff for water year 2014-15 (October 1 – September 30) was 51 percent of normal. For calendar year 2015, the California Department of Water Resources' ("DWR") initial allocation to State Water Contractors on December 1, 2014 was 10 percent. On March 2, 2015, DWR increased the State Water Project allocation to 20 percent of contracted amounts. With no significant improvements in the State's hydrology since March, the final State Water Project allocation for 2015 remained at 20 percent of contracted amounts. On December 1, 2015, DWR announced that the initial allocation estimate for 2016 is 10 percent of contracted amounts, or 191,150 acre-feet. DWR may increase or decrease allocations if warranted by the year's developing hydrologic and water supply conditions. See "—State Water Project—*General*" below.

In 2015, the Upper Colorado River Basin snowpack peaked in March at 76 percent of normal. However, the Upper Colorado River Basin runoff measured 94 percent of normal due to above normal precipitation in the basin in May, June and July, which will avert Colorado River shortage conditions in 2016 and allowed Metropolitan to implement new water management programs in 2015. As of October 18, 2015, total system storage in the Colorado River Basin was 51 percent of capacity. See "—Colorado River Aqueduct" below.

Uncertainties from potential future temperature and precipitation changes in a climate driven by increased concentrations of atmospheric carbon dioxide also present challenges. Areas of concern to California water planners identified by researchers include: reduction in Sierra Nevada 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.

Drought Response Actions

To offset reductions in State Water Project supplies and mitigate impacts of the California drought, Metropolitan has utilized supplies from the Colorado River and storage reserves, and is also encouraging responsible and efficient water use to lower demands.

Metropolitan is prepared to meet water demands in its service area through calendar year 2016 using a combination of State Water Project and CRA deliveries, storage reserves and supplemental water transfers and purchases. Through 2015, the CRA is anticipated to operate near capacity. Operations to distribute Colorado River supplies into areas normally served by State Water Project supplies began in 2014. These measures have offset the low 2015 State Water Project supply allocation. Approximately 120,000 acre-feet were withdrawn from dry-year storage reserves in the first six months of 2015, leaving 1.72 million acre-feet in storage reserves as of July 1, 2015. (An acre-foot is the amount of water that will cover one acre to a depth of one foot and equals approximately 326,000 gallons, which represents the needs of two average families in and around the home for one year.) Metropolitan staff estimates that the overall storage reserve level as of December 31, 2015 will be about 1.5 million acre-feet.

On April 1, 2015, Governor Brown issued an Executive Order ("Order") calling for a 25 percent reduction in consumer water use in response to the historically dry conditions throughout the State of California. As a wholesale water agency providing a supplemental water supply to its member agencies, Metropolitan is not subject to the requirements of the Governor's Order, which applies to retail water agencies, however Metropolitan's member agencies will need to reduce their water sales in order to comply with the Order. Metropolitan also relies upon its WSDM Plan to identify resource actions in times of shortage and its Water Supply Allocation Plan for equitable distribution of available water supplies in case of extreme shortages. On April 14, 2015, the Board declared the implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level for the allocation year, effective July 1, 2015 through June 30, 2016. Implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level and the Governor's Order are anticipated to reduce supplies delivered by Metropolitan to Metropolitan's member agencies in fiscal year 2015-16 to approximately 1.6 million acre-feet. See "—Storage Capacity and Water in Storage," "—Water Conservation," "—Water Surplus and Drought Management Plan" and "—Water Supply Allocation Plan" below.

In addition, since Governor Brown's initial drought emergency proclamation in January 2014, Metropolitan has worked proactively with its member agencies to conserve water supplies in its service area. In February 2014, Metropolitan declared a Water Supply Alert, calling upon local cities and water agencies to immediately implement extraordinary conservation measures and institute local drought ordinances, and significantly expanded its water conservation and outreach programs and increased funding for conservation incentive programs by $60 million, for a total of $100 million for fiscal years 2014-15 and 2015-16. Metropolitan has also increased incentives for large landscape customers to convert from potable water to recycled water for irrigation. In May 2015, due to the strong response to the water conservation incentive programs, especially the turf replacement program, Metropolitan increased funding for these programs by $350 million, for total funding of $450 million over fiscal years 2014-15 and 2015-16. On May 26, 2015, Metropolitan's Board approved the funding for this increase from the remaining balance in the Water Management Fund of $140 million, the projected amounts over target financial reserve levels for fiscal year 2014-15 of $160 million, and the remaining balance in the Water Stewardship Fund of $50 million. This is a one-time only increase to the conservation incentive program, and it is expected to result in 172 million square feet of turf removed and water savings of 800,000 acre-feet over the next ten years. Funding of this program in future years will be determined as part of the next biennial budget and rates process in spring 2016.

Integrated Water Resources Plan

The Integrated Water Resources Plan ("IRP") is Metropolitan's principal water resources planning document. Metropolitan, its member agencies, sub-agencies and groundwater basin managers developed their first IRP as a long-term planning guideline for resources and capital investments. The purpose of the IRP was the development of a portfolio of preferred resources (see "—The Integrated Resources Plan Strategy" below) to meet the water supply reliability and water quality needs for the region in a cost-effective and environmentally sound manner. The first IRP was adopted by the Board in January 1996 and was updated in 2004 and 2010.

On October 12, 2010, Metropolitan's Board adopted an IRP update (the "2010 IRP Update") as a strategy to set goals and a framework for water resources development. This strategy enables Metropolitan and its member agencies to manage future challenges and changes in California's water conditions and to balance investments with water reliability benefits. The 2010 IRP Update provides an adaptive management approach to address future uncertainty, including uncertainty from climate change. It was formulated with input from member agencies, retail water agencies, and other stakeholders including water and wastewater managers, environmental and business interests and the community. The framework places an emphasis on regional collaboration.

The 2010 IRP Update seeks to provide regional reliability through 2035 by stabilizing Metropolitan's traditional imported water supplies and continuing to develop additional local resources, with an increased emphasis on regional collaboration. It also advances long-term planning for potential future contingency resources, such as storm water capture and seawater desalination, in close coordination with Metropolitan's 26 member agencies and other utilities. Metropolitan is updating the IRP in two phases. The first phase is a technical update scheduled to be completed at the end of 2015. The second phase is development of policy and implementation approaches scheduled to begin at the conclusion of the technical update process.

The 2010 IRP Update approach serves as a foundation for the current IRP update process. Specific projects that may be developed by Metropolitan in connection with the implementation of the IRP will be subject to future Board consideration and approval, as well as environmental and regulatory documentation and compliance. The 2010 IRP Update, and all of the materials associated with the current IRP update process can be found on Metropolitan's website at: www.mwdh2o.com/PDF_About_Your_Water/2.4.1_Integrated_Resources_Plan.pdf. The information set forth on Metropolitan's website is not incorporated by reference.

The Integrated Resources Plan Strategy

The IRP Strategy identifies a balance of local and imported water resources within Metropolitan's service area. Metropolitan expects that the core resource strategy, uncertainty buffers and foundational actions in the IRP Strategy will be continually reviewed and updated at least every five years to reflect changing demand and supply conditions. Foundational actions include technical studies and research (up to pilot projects, but not full-scale projects) that enable timely, future implementation of challenging resources, including, but not limited to, recycled water, seawater desalination, stormwater capture, and groundwater enhancement.

The following paragraphs describe several elements of the IRP Strategy.

State Water Project. The State Water Project is one of Metropolitan's two major sources of water. In addition to municipal and industrial use of this core supply, State Water Project supplies are important for maximizing local groundwater potential and the use of recycled water since State Water Project water has lower salinity content than CRA water and can be used to increase groundwater conjunctive use applications. See "—State Water Project" below and "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

Colorado River Aqueduct. The CRA delivers water from the Colorado River, Metropolitan's original source of supply. Metropolitan has helped to fund and implement 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 and entities in Arizona and Nevada that use Colorado River water. See "—Colorado River Aqueduct" below.

Water Conservation. Conservation and other water use efficiencies are integral components of Metropolitan's IRP. Metropolitan has invested in conservation programs since the 1980s. Historically, most of the investments have been in water efficient fixtures in the residential sector. Metropolitan has offered outdoor water conservation programs in both the residential and commercial sectors since the 1990s, but since the end of California's last drought in 2010, Metropolitan has increased its conservation efforts targeting outdoor water use in these sectors. See "—Water Conservation" below and "—Drought Response Actions" above.

Recycled Water. Reclaimed or recycled municipal and industrial water is a valuable water resource and can be used for landscape irrigation, agriculture, protecting groundwater basins from saltwater intrusion, industrial processes, and recharging local aquifers. Metropolitan offers financial incentives to member agencies for developing economically viable reclamation projects. See "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

Conjunctive Use. Conjunctive use is the coordinated use of surface water supplies and groundwater storage. It entails storing surplus imported water during the winter months or wet years in local surface reservoirs and recharging local groundwater basins, then using the stored supplies during dry months and droughts. See "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

Water Transfers and Exchanges. Under voluntary water transfer or exchange agreements, agricultural communities using irrigation water may periodically sell or conserve some of their water allotments for use in urban areas. The water may be delivered through existing State Water Project or CRA facilities, or may be exchanged for water that is delivered through such facilities. Metropolitan's policy toward potential transfers states that the transfers will be designed to protect and, where feasible, enhance environmental resources and avoid the mining of local groundwater supplies. See "—Water Transfer, Storage and Exchange Programs" below.

Groundwater Recovery. Natural groundwater reservoirs serve an important function as storage facilities for local and imported water. In cases where groundwater storage has become contaminated, water agencies have to rely more heavily on imported water supplies. Treatment for polluted groundwater is quite costly and poses environmental challenges. Metropolitan offers financial incentives to help fund member agency groundwater recovery projects. See "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

Seawater Desalination. Seawater desalination is the process of removing salts from ocean water to produce potable supplies. It is a potential new local supply that could help increase supply reliability in Metropolitan's service area. Metropolitan offers financial incentives to member agencies for seawater desalination projects through its Seawater Desalination Program and Local Resource Program. See "REGIONAL WATER RESOURCES—Local Water Supplies" and "METROPOLITAN REVENUES—Rate Structure" in this Appendix A.

State Water Project

General. One of Metropolitan's two major sources of water is the State Water Project, which is owned by the State and operated by DWR. This project transports Feather River water stored in and released from Oroville Dam and unregulated flows diverted directly from the Bay-Delta south via the California Aqueduct to four delivery points near the northern and eastern boundaries of Metropolitan's service area. The total length of the California Aqueduct is approximately 444 miles.

In 1960, Metropolitan signed a water supply contract (as amended, the "State Water Contract") with DWR. Metropolitan is one of 29 agencies that have long-term contracts for water service from DWR, and is the largest agency in terms of the number of people it serves (approximately 18.5 million), the share of State Water Project water that it has contracted to receive (approximately 46 percent), and the percentage of total annual payments made to DWR by agencies with State water contracts (approximately 54 percent for 2014). For information regarding Metropolitan's obligations under the State Water Contract, see "METROPOLITAN EXPENDITURES—State Water Contract Obligations" in this Appendix A. Upon expiration of the State Water Contract term (currently in 2035), Metropolitan has the option to continue service under substantially the same terms and conditions. Metropolitan and other agencies with state water supply contracts are currently in negotiations with DWR to extend the State Water Contract. In June 2014, DWR and the State Water Project Contractors reached an Agreement in Principle ("AIP") to extend the contract to 2085 and to make certain changes related to financial management of the State Water Project in the future. The AIP will serve as the "proposed project" for purposes of environmental review under the California Environmental Quality Act ("CEQA"). DWR issued a Notice of Preparation of an Environmental Impact Report ("EIR") for the proposed project on September 14, 2014. Following CEQA review, a State Water Project amendment will be prepared. Such amendment will be subject to review by the Legislature.

The State Water Contract, under a 100 percent allocation, provides Metropolitan 1,911,500 acre-feet of water. The 100 percent allocation is referred to as the contracted amount. Late each year, DWR announces an initial allocation estimate for the upcoming year, but may revise the estimate throughout the year if warranted by developing precipitation and water supply conditions. From calendar years 2004 through 2014, the amount of water received by Metropolitan from the State Water Project, including water from water transfer, groundwater banking and exchange programs delivered through the California Aqueduct, described below under "—Water Transfer, Storage and Exchange Programs," varied from a low of 607,000 acre-feet in calendar year 2014 to a high of 1,800,000 acre-feet in 2004.

In calendar year 2013, DWR's allocation to State Water Project Contractors was 35 percent of contracted amounts, or 669,000 acre-feet of Metropolitan's 1,911,500 acre-foot contractual amount. In addition, Metropolitan began 2013 with approximately 281,000 acre-feet of carryover supplies from prior years. In calendar year 2014, DWR's allocation to State Water Project Contractors was five percent of contracted amounts, or 95,575 acre-feet. Metropolitan used all of its 223,000 acre-feet of carryover supplies from prior years, but was able to carry over 36,000 acre-feet of unused 2014 State Water Project supplies which will be available for use in 2015. See "—Water Transfer, Storage and Exchange Programs" and "—Storage Capacity and Water in Storage" below.

For calendar year 2015, DWR's initial allocation estimate to State Water Project Contractors was announced on December 1, 2014, as 10 percent of contracted amounts. Due to December 2014 and February 2015 storm runoff and storage in the State's major reservoirs, this allocation was increased on January 15, 2015 to 15 percent of contracted amounts, and increased again on March 2, 2015 to 20 percent, or 382,000 acre-feet. On December 1, 2015, DWR announced that the initial allocation estimate for 2016 is 10 percent of contracted amounts, or 191,150 acre-feet. This allocation reflects a fourth consecutive year of drought, low storage levels in the State's major reservoirs, and federally mandated environmental restrictions which have been imposed upon water deliveries from the Bay Delta, including the biological opinions as discussed below. As in previous dry years, Metropolitan is augmenting these deliveries using withdrawals from its storage programs along the State Water Project and through water transfer and exchange programs. See "METROPOLITAN'S WATER SUPPLY—Water Transfer, Storage and Exchange Programs" in this Appendix A.

State Water Project Operational Constraints. DWR has altered the operations of the State Water Project to accommodate species of fish listed under the federal or California Endangered Species Acts (respectively, the "Federal ESA" and the "California ESA" and, collectively, the "ESAs") and to comply with State Water Resources Control Board ("SWRCB") regulations and decisions. These changes in project operations have adversely affected State Water Project deliveries.

State Water Project operational requirements may be further modified under new biological opinions for listed species under the Federal ESA or by the California Department of Fish and Game's issuance of incidental take authorizations under the California ESA. Additionally, new litigation, listings of additional species or new regulatory requirements could further adversely affect State Water Project operations in the future by requiring additional export reductions, releases of additional water from storage or other operational changes impacting water supply operations. Operational constraints likely will continue until long-term solutions to the problems in the Bay-Delta are identified and implemented. Metropolitan cannot predict the ultimate outcome of any of the litigation or regulatory processes described below but believes they could have a materially adverse impact on the operation of State Water Project pumps, Metropolitan's State Water Project supplies and Metropolitan's water reserves.

Endangered Species Act Considerations

General. The listing of several fish species as threatened or endangered under the ESAs has adversely impacted State Water Project operations and limited the flexibility of the State Water Project. Currently, five species (the winter-run and spring-run Chinook salmon, Delta smelt, North American green sturgeon and Central Valley steelhead) are listed under the ESAs. In addition, on June 25, 2009, the California Fish and Game Commission declared the longfin smelt a threatened species under the California ESA.

The Federal ESA requires that before any federal agency authorizes funds or carries out an action it must consult with the appropriate federal fishery agency to determine whether the action would jeopardize the continued existence of any threatened or endangered species, or adversely modify habitat critical to the species' needs. The result of the consultation is known as a "biological opinion." In the biological opinion the federal fishery agency determines whether the action would cause jeopardy to a threatened or endangered species or adverse modification to critical habitat and recommends reasonable and prudent alternatives or measures that would allow the action to proceed without causing jeopardy or adverse modification. The biological opinion also includes an "incidental take statement." The incidental take statement allows the action to go forward even though it will result in some level of "take," including harming or killing some members of the species, incidental to the agency action, provided that the agency action does not jeopardize the continued existence of any threatened or endangered species and complies with reasonable mitigation and minimization measures recommended by the federal fishery agency.

Delta Smelt and Salmon Federal ESA Biological Opinions. The United States Fish and Wildlife Service released a biological opinion on the impacts of the State Water Project and Central Valley Project on Delta smelt on December 15, 2008. On June 4, 2009, the National Marine Fisheries Service released a biological opinion for salmonid species. These biological opinions on delta smelt and salmonid species contain water supply restrictions that could have a range of impacts on Metropolitan's deliveries from the State Water Project, depending on hydrologic conditions. The impact on total State Water Project deliveries attributable to the Delta smelt and salmonid species biological opinions combined is estimated to be one million acre-feet in an average year, reducing State Water Project deliveries from approximately 3.3 million acre-feet to approximately 2.3 million acre-feet for the year under average hydrology, and are estimated to range from 0.3 million acre-feet during critically dry years to 1.3 million acre-feet in above normal water years. State Water Project deliveries to contractors for calendar years 2008 through 2014 were reduced by a total of approximately 3.0 million acre-feet as a result of pumping restrictions. Pumping restrictions impacting the State Water Project allocation for calendar year 2014 reduced exports by approximately 100,000 acre-feet.

California ESA Litigation. In addition to the litigation under the Federal ESA, other environmental groups sued DWR on October 4, 2006 in the Superior Court of the State of California for Alameda County alleging that DWR was "taking" listed species without authorization under the California ESA. This litigation *(Watershed Enforcers, a project of the California Sportfishing Protection Alliance v. California Department of Water Resources)* requested that DWR be mandated to either cease operation of the State

Water Project pumps, which deliver water to the California Aqueduct, in a manner that results in such "taking" of listed species or obtain authorization for such "taking" under the California ESA. On April 18, 2007, the Alameda County Superior Court issued its Statement of Decision finding that DWR was illegally "taking" listed fish species through operation of the State Water Project export facilities. The Superior Court ordered DWR to "cease and desist from further operation" of those facilities within 60 days unless it obtained take authorization from the California Department of Fish and Game.

DWR appealed the Alameda County Superior Court's order on May 7, 2007. This appeal stayed the order pending the outcome of the appeal. The Court of Appeal stayed processing of the appeal in 2009 to allow time for DWR to obtain incidental take authorization for the Delta smelt and salmon under the California ESA, based on the consistency of the federal biological opinions with California ESA requirements ("Consistency Determinations"). After the California Department of Fish & Game issued the Consistency Determinations under the California ESA, authorizing the incidental take of both Delta smelt and salmon, appellants DWR and State Water Contractors dismissed their appeals of the *Watershed Enforcers* decision. The Court of Appeal subsequently issued a decision finding that DWR was a "person" under the California ESA and subject to its take prohibitions, which was the only issue left in the case. The State Water Contractors and Kern County Water Agency have filed suit in state court challenging the Consistency Determinations under the California ESA that have been issued for both Delta smelt and salmon. Those lawsuits challenging the Consistency Determinations have been stayed and are awaiting the final rulings in federal court regarding the validity of the Delta smelt and salmon biological opinions. —See *"Delta Smelt and Salmon Federal ESA Biological Opinions"* above.

SWRCB Regulatory Activities. 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.

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 current review has been ongoing since approximately 2010.

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. In response to the recent drought conditions, DWR and Reclamation requested temporary relief from certain WQCP standards and filed petitions in 2014 and 2015 requesting changes to D-1641 terms that govern outflows and salinity standards in the Bay-Delta. The SWRCB approved temporary urgency changes in the Bay-Delta in 2014 and 2015, enabling water to be conserved in reservoirs in case of continued drought.

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

Building on CALFED and other Bay-Delta planning activities, in 2006 multiple State and federal resource agencies, water agencies, and other stakeholder groups entered into a planning agreement for the Bay-Delta Conservation Plan ("BDCP"). The BDCP 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.

In 2015, the State and federal lead agencies decided to consider an alternative implementation strategy and new alternatives to the BDCP associated with that strategy. In this alternative approach, DWR and the Bureau of Reclamation would implement planned water conveyance improvements as a stand-alone project termed California WaterFix that would seek incidental take authorization for an unspecified period and would include only limited amounts of habitat restoration. Preliminary cost estimates for this project alternative are approximately $17 billion. When a decision selecting the final project has been made, costs will be updated and allocated. Metropolitan anticipates that it could bear approximately 25 percent of the costs of the project. A Partially Recirculated Draft EIR/Supplemental Draft EIS for the revised BDCP/California WaterFix alternatives has been circulated for public review. The public comment period ended on October 30, 2015. The final planning documents are expected to be completed in the spring of 2016.

State of California Water Bond. On November 4, 2014, California voters approved a state-wide ballot measure, Proposition 1, which authorized the issuance of up to $7.545 billion of State of California, General Obligation Bonds. Proposition 1 also enacted the Water Quality, Supply, and Infrastructure Improvement Act of 2014, which provides for the funding of a broad range of water projects. Metropolitan is not able to assess at this time the impact that the water bond measure or the Water Quality, Supply, and Infrastructure Improvement Act of 2014 may have on Metropolitan.

California Water Impact Network Litigation. On September 3, 2010, the California Water Impact Network and two other non-profit organizations filed a petition for writ of mandate and for declaratory and injunctive relief in Sacramento Superior Court against the SWRCB and DWR. The petition alleges that by permitting and carrying out the export of large volumes of water from the Delta through the State Water Project, the SWRCB and DWR have failed to protect public trust fishery resources in the Delta; have been diverting water from the Bay-Delta wastefully and unreasonably in violation of the prohibition against waste and unreasonable use in the California Constitution; and have failed to enforce and comply with water quality and beneficial use standards in D-1641, the 1995 SWRCB Water Quality Control Plan, and the Porter-Cologne Act. Among the relief sought in the petition is an injunction against Bay-Delta exports by the State Water Project pending compliance with the various laws and administrative orders that are alleged to have been violated. The State Water Contractors filed a motion to intervene in this action, which was granted on March 25, 2011. The court has ordered the plaintiffs to include the Bureau of Reclamation as a party. In response, the Bureau of Reclamation has asserted that federal sovereign immunity bars their inclusion in the state court action. If the court determines that the Bureau of Reclamation is an indispensable party, the lawsuit, or portions of it, may be dismissed.

Monterey Agreement Litigation. On May 4, 2010, DWR completed an EIR and concluded a remedial CEQA review for the Monterey Agreement, which reflects the settlement of certain disputes regarding the allocation of State Water Project water. Following DWR's completion of the EIR, three lawsuits were filed challenging the project. Central Delta Water Agency, South Delta Water Agency, California Water Impact Network, California Sportfishing Protection Alliance, and the Center For Biological Diversity filed a lawsuit against DWR in Sacramento County Superior Court challenging the validity of the EIR under CEQA and the validity of underlying agreements under a reverse validation action (the "*Central Delta I*" case). These same plaintiffs filed a reverse validation lawsuit against the Kern County Water Agency in Kern County Superior Court ("*Central Delta II*"). This lawsuit targets a transfer of land from Kern County Water Agency to the Kern Water Bank, which was completed as part of the original Monterey Agreement. The third lawsuit is an EIR challenge brought by Rosedale-Rio Bravo Water Storage District and Buena Vista Water Storage District against DWR in Kern County Superior Court ("*Rosedale*"). The *Central Delta II* and *Rosedale* cases were transferred to Sacramento Superior Court and the three cases were consolidated for trial.

In January 2013, the Court ruled that the validation cause of action in *Central Delta I* was time barred by the statute of limitations. On October 2, 2014, the court issued its final rulings in *Central Delta I* and *Rosedale*, holding that DWR must complete a limited scope remedial CEQA review addressing the potential impacts of the Kern Water Bank. However, the court's ruling also allows operation of the State Water Project to continue under the terms of the Monterey Agreement while the remedial CEQA review is prepared and leaves in place the underlying project approvals while DWR prepares the remedial CEQA review. The *Central Delta II* case was stayed pending resolution of the *Central Delta I* case.

The plaintiffs have appealed the decision. Any adverse impact of this litigation and ruling on Metropolitan's State Water Project supplies cannot be determined at this time.

Colorado River Aqueduct

General. The Colorado River was Metropolitan's original source of water after Metropolitan's establishment in 1928. Metropolitan has a legal entitlement to receive water from the Colorado River under a permanent service contract with the Secretary of the Interior. Water from the Colorado River and its tributaries is also available to other users in California, as well as users in the states of Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming (the "Colorado River Basin States"), resulting in both competition and the need for cooperation among these holders of Colorado River entitlements. In addition, under a 1944 treaty, Mexico has an allotment of 1.5 million acre-feet of Colorado River water annually except in the event of extraordinary drought or serious accident to the delivery system in the United States, in which event the water allotted to Mexico would be curtailed. Mexico also can schedule delivery of an additional 200,000 acre-feet of Colorado River water per year if water is available in excess of the requirements in the United States and the 1.5 million acre-feet allotted to Mexico.

The CRA, which is owned and operated by Metropolitan, transports water from the Colorado River approximately 242 miles to its terminus at Lake Mathews in Riverside County. 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.

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. Under the 1931 priority system that has formed the basis for the distribution of Colorado River water made available to California, Metropolitan holds the fourth priority right to 550,000 acre-feet per year. This is the last priority within California's basic apportionment. In addition, Metropolitan holds the fifth priority right to 662,000 acre-feet of water, which is in excess of California's basic apportionment. See the table "PRIORITIES UNDER THE 1931 CALIFORNIA SEVEN-PARTY AGREEMENT" below. Until 2003, Metropolitan had been able to take full advantage of its fifth priority right as a result of the availability of surplus water and 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. In addition, a severe drought in the Colorado River Basin reduced storage in system reservoirs, ending the availability of surplus deliveries to Metropolitan. As a result, California has been limited to 4.4 million acre-feet since 2003. Prior to 2003, Metropolitan could divert over 1.25 million acre-feet in any year, but since that time, Metropolitan's net diversions of Colorado River water have ranged from a low of nearly 633,000 acre-feet in 2006 to a high of approximately 1,176,000 acre-feet in 2014. Projected net diversions of Colorado River water are estimated to be approximately 1.2 million acre-feet in 2015. Average annual net deliveries for 2004 through 2014 were approximately 883,000 acre-feet, with annual volumes dependent primarily on programs to augment supplies, including transfers of conserved water from agriculture. See "—*Quantification Settlement Agreement*" and "—*Interim Surplus Guidelines*" below.

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

Priority	Description	Acre-Feet Annually
1	Palo Verde Irrigation District gross area of 104,500 acres of land in the Palo Verde Valley	
2	Yuma Project in California not exceeding a gross area of 25,000 acres in California	3,850,000
3(a)	Imperial Irrigation District and other lands in Imperial and Coachella Valleys[(2)] to be served by All-American Canal	
3(b)	Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	
4	Metropolitan Water District of Southern California for use on the coastal plain	550,000
	SUBTOTAL	4,400,000
5(a)	Metropolitan Water District of Southern California for use on the coastal plain	550,000
5(b)	Metropolitan Water District of Southern California for use on the coastal plain[(3)]	112,000
6(a)	Imperial Irrigation District and other lands in Imperial and Coachella Valleys to be served by the All-American Canal	300,000
6(b)	Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	
	TOTAL	5,362,000
7	Agricultural use in the Colorado River Basin in California	Remaining surplus

Source: Metropolitan.

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

Metropolitan has taken steps to augment its share of Colorado River water through agreements with other agencies that have rights to use such water. Under a 1988 water conservation agreement (the "1988 Conservation Agreement") between Metropolitan and the Imperial Irrigation District ("IID"), Metropolitan provided funding for IID to construct and operate a number of conservation projects that have conserved up to 109,460 acre-feet of water per year that has been provided to Metropolitan. In 2015, 107,820 acre-feet of conserved water is being made available by IID to Metropolitan. Under the October 2003 Quantification Settlement Agreement and related agreements, Metropolitan, at the request of Coachella Valley Water District ("CVWD"), forgoes up to 20,000 acre-feet of this water each year for diversion by CVWD. See "–*Quantification Settlement Agreement*" below. In 2013 and 2014, CVWD's requests were for 6,693 and 19,795 acre-feet respectively, leaving 98,307 acre-feet in 2013 and 84,305 acre-feet in 2014 for Metropolitan.

Metropolitan and the Palo Verde Irrigation District ("PVID") signed the program agreement for a Land Management, Crop Rotation and Water Supply Program in August 2004. This program provides up to 133,000 acre-feet of water to be available to Metropolitan in certain years. The term of the program is 35 years. Fallowing began on January 1, 2005. In March 2009, Metropolitan and PVID entered into a supplemental fallowing program within PVID that provided for the fallowing of additional acreage in 2009 and 2010. In calendar years 2009 and 2010, respectively, 24,100 acre-feet and 32,300 acre-feet of water were saved and made available to Metropolitan under the supplemental program. The following table shows annual volumes of water saved and made available to Metropolitan:

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

Calendar Year	Volume (acre-feet)
2005	108,700
2006	105,000
2007	72,300
2008	94,300
2009*	144,300
2010*	148,600
2011	122,200
2012	73,700
2013	32,750
2014	43,010

Source: Metropolitan.

* Includes water from the supplemental fallowing program that provided for fallowing of additional acreage in 2009 and 2010.

In May 2008, Metropolitan provided $28.7 million to join the Central Arizona Water Conservation District ("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. Besides the additional water supply, the new reservoir adds to the flexibility of Colorado River operations. As of September 1, 2015, Metropolitan had received 35,000 acre-feet of this water, and had 65,000 acre-feet remaining.

In September 2009, Metropolitan authorized participation with SNWA, the Colorado River Commission of Nevada, the CAWCD and the Bureau of Reclamation in the pilot operation of the Yuma Desalting Plant. The Bureau of Reclamation concluded the pilot operation of the Yuma Desalting Plant in March 2011. Metropolitan's contribution for the funding agreement was $8,395,313, of which $1,087,687 was refunded to Metropolitan. Metropolitan's yield from the pilot run of the project was 24,397 acre-feet. That water is stored in Lake Mead for Metropolitan's future use.

In November 2012, Metropolitan executed agreements in support of a program to augment Metropolitan's Colorado River supply from 2013 through 2017 through an international pilot project in Mexico. Metropolitan's total share of costs will be $5 million for 47,500 acre-feet of project supplies. The costs will be paid between 2015 and 2017, and the conserved water will be credited to Metropolitan's intentionally-created surplus water account no later than 2017. See "— *Intentionally-Created Surplus Program*" below. In December 2013, Metropolitan and IID executed an agreement under which IID will pay half of Metropolitan's program costs, or $2.5 million, in return for half of the project supplies, or 23,750 acre-feet.

Quantification Settlement Agreement. The Quantification Settlement Agreement ("QSA"), executed by CVWD, IID and Metropolitan in October 2003, establishes Colorado River water use limits for IID and CVWD, and provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years. 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 conserve approximately 96,000 acre-feet annually. As a result, about 80,000 acre-feet of conserved water is delivered to the San Diego County Water Authority ("SDCWA") by exchange with Metropolitan. Metropolitan also takes delivery of 16,000 acre-feet annually that will be made available for the benefit of the La Jolla, Pala, Pauma, Rincon and San Pasqual Bands of Mission Indians, the San Luis Rey River Indian Water Authority, the City of Escondido and the Vista Irrigation District, upon completion of a water rights settlement. Also included under the QSA is the 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. In 2021, the transfer of water conserved annually by IID to SDCWA is expected to reach 205,000 acre-feet. See description below under the caption "—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*"; see also "METROPOLITAN REVENUES—Principal Customers" in this Appendix A. With full implementation of the programs identified in the QSA, at times when California is limited to its basic apportionment of 4.4 million acre-feet per year, Metropolitan expects to be able to annually divert to its service area approximately 850,000 acre-feet of Colorado River water plus water from other water augmentation programs it develops, including the PVID program, which provides up to approximately 133,000 acre-feet of water per year. (Amounts of Colorado River water received by Metropolitan in 2004 through 2014 are discussed under the heading "—Colorado River Aqueduct—*General*" above.)

A complicating factor in completing the QSA was the fate of the Salton Sea, an important habitat for a wide variety of fish-eating birds as a stopover spot along the Pacific flyway. Some of these birds are listed as threatened or endangered species under the California and Federal ESAs. Located at the lowest elevations of an inland basin and fed primarily by agricultural drainage with no outflows other than evaporation, the Salton Sea is trending towards hyper-salinity, which has already impacted the Salton Sea's fishery. Without mitigation, the transfer of water from IID to SDCWA, one of the core programs implemented under the QSA, would reduce the volume of agricultural drainage from IID's service area into the Salton Sea, which in turn would accelerate this natural trend of the Salton Sea to hyper-salinity. See "—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*" below. In passing legislation to implement the QSA, the Legislature committed the State to undertake restoration of the Salton Sea ecosystem. Restoration of the Salton Sea is subject to selection and approval of an alternative by the Legislature and funding of the associated capital improvements and operating costs. The Secretary for the California Natural Resources Agency submitted an $8.9 billion preferred alternative for restoration of the Salton Sea to the Legislature in May 2007. While withholding authorization of the preferred alternative, the Legislature has appropriated funds from Proposition 84 to undertake demonstration projects and investigations called for in the Secretary's recommendation. On September 25, 2010, then-Governor Schwarzenegger signed Senate Bill 51, establishing the "Salton Sea Restoration Council" as a state agency in the Natural Resources Agency to oversee restoration of the Salton Sea. The council was directed to evaluate alternative Salton Sea restoration plans and to report to the Governor and the Legislature by June 30, 2013 with a recommended plan. However, Governor Brown's 2012 Reorganization Plan, as modified by budget trailer bill SB 1018 (Leno), Chapter 39, Statutes of 2012, effective December 31, 2012, eliminated the council before it ever met. The QSA implementing legislation also established the Salton Sea Restoration Fund, to be funded in part by payments made by the parties to the QSA and fees on certain water transfers among the parties to the QSA.

Under the QSA agreements Metropolitan agreed to pay $20 per acre-foot (in 2003 dollars) into the Salton Sea Restoration Fund for any special surplus Colorado River water that Metropolitan receives under the Interim Surplus Guidelines, if available. Metropolitan also agreed to acquire up to 1.6 million acre-feet of water conserved by IID, excluding water transferred from IID to SDCWA (see "—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*" below), if such water can be transferred consistent with plans for Salton Sea restoration, at an acquisition price of $250 per acre-foot (in 2003 dollars), with net proceeds to be deposited into the Salton Sea Restoration Fund. No conserved water has been made available to Metropolitan under this program. As part of an effort to mitigate the effects of the drought in the Colorado River Basin that began in 2000, Metropolitan elected not to take delivery of special surplus Colorado River water that was available from October 2003 through 2004 and from 2006 through 2007. No special surplus water has been available since 2007. Metropolitan may receive credit for the special surplus water payments against future contributions for the Lower Colorado River Multi-Species Conservation Program (see "—*Environmental Considerations*" below). In consideration of these agreements, Metropolitan will not have or incur any liability for restoration of the Salton Sea.

Sale of Water by the Imperial Irrigation District to San Diego County Water Authority. On April 29, 1998, SDCWA and IID executed an agreement (the "Transfer Agreement") for SDCWA's purchase from IID of Colorado River water that is conserved within IID. An amended Transfer Agreement, executed as one of the QSA agreements, set the maximum transfer amount at 205,000 acre-feet in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, then stabilizing at 200,000 acre-feet per year beginning in 2023.

No facilities exist to deliver water directly from IID to SDCWA. Accordingly, Metropolitan and SDCWA entered into an exchange agreement, pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals. See "—*Quantification Settlement Agreement"* above. Metropolitan delivers an equal volume of water from its own sources of supply through portions of its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. In consideration for the conserved water made available to Metropolitan by SDCWA, a lower rate is paid by SDCWA for the exchange water delivered by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan's Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities. See "METROPOLITAN REVENUES–Wheeling and Exchange Charges" and "–Litigation Challenging Rate Structure" in this Appendix A for a description of Metropolitan's charges for the conveyance of water through Metropolitan's facilities and litigation in which SDCWA and IID are challenging such charges. In 2014, 180,123 acre-feet were delivered by SDCWA for exchange, consisting of 100,000 acre-feet of IID conservation plus 80,123 acre-feet of conserved water from the Coachella Canal and All-American Canal lining projects.

QSA Related Litigation. On November 5, 2003, IID filed a validation action in Imperial County Superior Court, seeking a judicial determination that thirteen agreements associated with the IID/SDCWA water transfer and the QSA are valid, legal and binding. Other lawsuits also were filed contemporaneously challenging the execution, approval and implementation of the QSA on various grounds. All of the QSA cases were coordinated in Sacramento Superior Court. Between early 2004 and late 2009, a number of pre-trial challenges and dispositive motions were filed by the parties and ruled on by the court, which reduced the number of active cases and narrowed the issues for trial, the first phase of which began on November 9, 2009 and concluded on December 2, 2009. One of the key issues in this first phase was the constitutionality of the QSA Joint Powers Agreement, pursuant to which IID, CVWD and SDCWA agreed to commit $163 million toward certain mitigation and restoration costs associated with implementation of the QSA and related agreements, and the State agreed to be responsible for any costs exceeding this amount. A final judgment was issued on February 11, 2010, in which the trial court held that the State's commitment was unconditional in nature and, as such, violated the appropriation requirement and debt limitation under the California Constitution. The trial court also invalidated eleven other agreements, including the QSA, because they were inextricably interrelated with the QSA Joint Powers Agreement. Lastly, the trial court ruled that all other claims raised by the parties, including CEQA claims related to the QSA Programmatic EIR and the IID Transfer Project EIR, are moot.

In March 2010, Metropolitan, IID, CVWD, SDCWA, the State and others filed notices of appeal challenging various aspects of the trial court's ruling. On December 7, 2011, the court of appeal issued its ruling reversing, in part, the trial court's ruling. In particular, the court of appeal held that while the State's commitment to fund mitigation and restoration costs in excess of $163 million was unconditional, actual payment of such costs was subject to a valid appropriation by the Legislature, as required under the California Constitution. Moreover, the State's commitment did not create a present debt in excess of the State Constitution's $300,000 debt limit. Thus, the QSA Joint Powers Agreement was held to be constitutional. The court of appeal also rejected other challenges to this agreement, including that it was beyond the State's authority, there was no "meeting of the minds," and there was a conflict of interest. In light of its ruling, the court of appeal remanded the matter back to the trial court for further proceedings on the claims that had been previously dismissed as moot. A two-day bench trial was held on November 13, 2012. On June 4, 2013 the trial court issued its ruling, holding that IID had acted within its authority in executing these agreements and had complied with all substantive and procedural requirements imposed under State law. In addition, the court held that the environmental reviews conducted in support of the QSA and related agreements complied with CEQA and its implementing regulations in all respects. In short, the trial court rejected all of the claims asserted by opponents of the QSA. Parties challenging the QSA appealed and agencies supporting the QSA filed a cross-appeal.

Briefing by the parties to the appeals and cross-appeals was completed in August 2014. However, in late 2014 and early 2015, IID entered into settlement agreements with all of the appellants, resulting in dismissal of their appeals. The cross-appeals were then dismissed as moot, bringing to an end all litigation challenging the QSA and its related agreements.

Navajo Nation Litigation. The Navajo Nation filed litigation against the Department of the Interior, specifically the Bureau of Reclamation and the Bureau of Indian Affairs, in 2003, alleging that the Bureau of Reclamation has failed to determine the extent and quantity of the water rights of the Navajo Nation in the Colorado River and that the Bureau of Indian Affairs has failed to otherwise protect the interests of the Navajo Nation. The complaint challenges the adequacy of the environmental review for the Interim Surplus Guidelines (as defined under "*—Interim Surplus Guidelines*" below) and seeks to prohibit the Department of the Interior from allocating any "surplus" water until such time as a determination of the rights of the Navajo Nation is completed. Metropolitan and other California water agencies filed motions to intervene in this action. In October 2004 the court granted the motions to intervene and stayed the litigation to allow negotiations among the Navajo Nation, federal defendants, CAWCD, State of Arizona and Arizona Department of Water Resources. After years of negotiations, a tentative settlement was proposed in 2012 that would provide the Navajo Nation with specified rights to water from the Little Colorado River and groundwater basins under the reservation, along with federal funding for development of water supply systems on the tribe's reservation. The proposed agreement was rejected by tribal councils for both the Navajo and the Hopi, who are now seeking to intervene. On May 16, 2013, the stay of proceedings was lifted. On June 3, 2013, the Navajo Nation moved for leave to file a first amended complaint, which the court granted on June 27, 2013. The amended complaint added a legal challenge to the Lower Basin Shortage Guidelines adopted by the Secretary of the Interior in 2007 that allow Metropolitan and other Colorado River water users to store water in Lake Mead. Metropolitan has used these new guidelines to store over 500,000 acre-feet of water in Lake Mead, a portion of which has been delivered, and the remainder of which may be delivered at Metropolitan's request in future years. See "*—Intentionally-Created Surplus Program*" below. On July 22, 2014, the district court dismissed the lawsuit in its entirety, ruling that the Navajo Nation lacked standing and that the claim was barred against the federal defendants. The district court denied a motion by the Navajo Nation for leave to amend the complaint further after the dismissal. 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. Briefing by the parties was completed by May 20, 2015. No date for oral argument has been set. Metropolitan is unable to assess at this time the likelihood of success of this appeal or any future claims, or their potential effect on Colorado River water supplies.

Interim Surplus Guidelines. In January 2001, the Secretary of the Interior adopted guidelines (the "Interim Surplus Guidelines") for use through 2016 in determining if there is surplus Colorado River water available for use in California, Arizona and Nevada. The purpose of the Interim Surplus Guidelines is to provide a greater degree of predictability with respect to the availability and quantity of surplus water through 2016. The Interim Surplus Guidelines were amended in 2007 and now extend through 2026 (see "*—Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead*" below).

Under the Interim Surplus Guidelines, Metropolitan initially expected to divert up to 1.25 million acre-feet of Colorado River water annually under foreseeable runoff and reservoir storage scenarios from 2004 through 2016. However, an extended drought in the Colorado River Basin reduced these initial expectations. On May 16, 2002 SNWA and Metropolitan entered into an Agreement Relating to Implementation of Interim Colorado River Surplus Guidelines, in which SNWA and Metropolitan agreed to the allocation of unused apportionment as provided in the Interim Surplus Guidelines and on the priority of SNWA for interstate banking of water in Arizona. SNWA and Metropolitan entered into a storage and interstate release agreement on October 21, 2004. Under this program, SNWA can request that Metropolitan store unused Nevada apportionment in California. The amount of water stored through 2014 under this agreement is approximately 205,000 acre-feet. In subsequent years, SNWA may request recovery of this stored water. As part of a 2012 executed amendment, it is expected that SNWA will not request return of the water stored with Metropolitan before 2022. In October 2015, SNWA and Metropolitan executed an amendment under which MWD will pay SNWA approximately $44.4 million and SNWA will store an additional 150,000 acre-feet with Metropolitan during 2015. Of that amount, 125,000 acre-feet will be added to SNWA's storage account with Metropolitan, increasing the total amount of water stored to 330,000 acre-feet. 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 based on the amount of water returned plus inflation. The stored water will allow Metropolitan to have a full water supply from the Colorado River in 2015.

Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead. In November 2007, the Bureau of Reclamation issued a Final Environmental Impact Statement ("EIS") regarding new federal guidelines concerning the operation of the Colorado River system reservoirs. These new guidelines provide water release criteria from Lake Powell and water storage and water release criteria from Lake Mead during shortage and surplus conditions in the Lower Basin, provide a mechanism for the storage and delivery of conserved system and non-system water in Lake Mead and extend the Interim Surplus Guidelines through 2026. The Secretary of the Interior issued the final guidelines through a Record of Decision signed in December 2007. The Record of Decision and accompanying agreement among the Colorado River Basin States protect reservoir levels by reducing deliveries during drought periods, encourage agencies to develop conservation programs and allow the Colorado River Basin States to develop and store new water supplies. The Colorado River Basin Project Act of 1968 insulates California from shortages in all but the most extreme hydrologic conditions.

Intentionally-Created Surplus Program. Metropolitan may store intentionally-created surplus water in Lake Mead under the federal guidelines for operation of the Colorado River system reservoirs described above under the heading "*Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead*." Only "intentionally-created surplus" water (water that has been conserved through an extraordinary conservation measure, such as land fallowing) is eligible for storage in Lake Mead under this program. See the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "—Storage Capacity and Water in Storage" below. The Secretary of the Interior delivers intentionally-created surplus water to Metropolitan in accordance with the terms of December 13, 2007 and January 6, 2010 Delivery Agreement between the United States and Metropolitan. As of January 2015, Metropolitan had approximately 151,000 acre-feet in its intentionally-created surplus accounts. These surplus accounts are made up of water conserved by fallowing in the Palo Verde Valley, projects implemented with IID in its service area, groundwater desalination, the Warren H. Brock Reservoir Project and the Yuma Desalting Plant pilot run.

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

Quagga Mussel Control Program. In January 2007 quagga mussels were discovered in Lake Mead. Quagga mussels can reproduce quickly and, if left unmanaged, can clog intakes and raw water conveyance systems, alter or destroy fish habitats and affect lakes and beaches. Quagga mussels were introduced in the Great Lakes in the late 1980s. These organisms infest much of the Great Lakes basin, the St. Lawrence Seaway, and much of the Mississippi River drainage system. The most likely source of the quagga mussel infestation in the Colorado River is recreational boats with exposure to water bodies around the Great Lakes. Metropolitan developed a program in 2007 to address the long term introduction of mussel larvae into the CRA from the Lower Colorado River, which is now heavily colonized from Lake Mead through Lake Havasu. The quagga mussel control program consists of surveillance activities and control measures. Surveillance activities are conducted annually in conjunction with regularly scheduled two- to three-week long CRA shutdowns, which have the added benefit of desiccating exposed quagga mussels. Control activities consist of continuous chlorination at Copper Basin, quarterly use of a mobile chlorinator at outlet towers and physical removal of mussels from the trash racks in Lake Havasu. Recent shutdown inspections have demonstrated that the combined use of chlorine and regularly scheduled shutdowns effectively control mussel infestation in the CRA. Metropolitan's costs for controlling quagga mussels are between $4 million and $5 million per year.

Water Transfer, Storage and Exchange Programs

General. California's agricultural activities consume approximately 34 million acre-feet of water annually, which is approximately 80 percent of the total water used for agricultural and urban uses and 40 percent of the water used for all consumptive uses, including environmental demands. Voluntary water transfers and exchanges can make a portion of this agricultural water supply available to support the State's urban areas. Such existing and potential water transfers and exchanges are an important element for improving the water supply reliability within Metropolitan's service area and accomplishing the reliability goal set by Metropolitan's Board. Metropolitan is currently pursuing voluntary water transfer and exchange programs with State, federal, public and private water districts and individuals. The following are summary descriptions of some of these programs.

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

Semitropic/Metropolitan Groundwater Storage and Exchange Program. In 1994, Metropolitan entered into an agreement with the Semitropic Water Storage District ("Semitropic"), located adjacent to the California Aqueduct north of Bakersfield, to store water in the groundwater basin underlying land within Semitropic. The minimum annual yield available to Metropolitan from the program is 44,700 acre-feet of water and the maximum annual yield is 236,200 acre-feet of water depending on the available unused capacity and the State Water Project allocation. Metropolitan's current storage account under the Semitropic program is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "—Storage Capacity and Water in Storage" below.

California Aqueduct Dry-Year Transfer Program. Through agreements with the Kern Delta Water District, the Mojave Water Agency and the San Bernardino Valley Municipal Water District ("SBVMWD"), the California Aqueduct Dry-Year Transfer Program insures against regulatory and operational uncertainties in the State Water Project system that could impact the reliability of existing supplies. The total potential yield from the three agreements is approximately 80,000 acre-feet of water per year when sufficient water is available.

Metropolitan entered into an agreement with SBVMWD in April 2001 to coordinate the use of facilities and State Water Project water supplies. The agreement allows Metropolitan a minimum purchase of 20,000 acre-feet on an annual basis with the option to purchase additional water when available. The program includes 50,000 acre-feet of storage capacity for the carryover of water purchased from SBVMWD. In addition to water being supplied using the State Water Project, the previously stored water can be returned using an interconnection between the San Bernardino Central Feeder and Metropolitan's Inland Feeder. On October 14, 2014, the Board approved the extension of this agreement to December 31, 2035 and a one-time exchange of up to 11,000 acre-feet.

Metropolitan entered into an agreement with Kern Delta Water District on May 27, 2003, for a groundwater banking and exchange transfer program to allow Metropolitan to store up to 250,000 acre-feet of State Water Contract water in wet years and permit Metropolitan, at Metropolitan's option, a return of up to 50,000 acre-feet of water annually during hydrologic and regulatory droughts.

Additionally, Metropolitan entered into a groundwater banking and exchange transfer agreement with Mojave Water Agency on October 29, 2003. This agreement was amended in 2011 to allow for the cumulative storage of up to 390,000 acre-feet. The agreement allows for Metropolitan to store water in an exchange account for later return. Through 2021, and when the State Water Project allocation is 60 percent or less, Metropolitan can annually withdraw the Mojave Water Agency's State Water Project contractual amounts in excess of a 10 percent reserve. When the State Water Project allocation is over 60 percent, the reserved amount for Mojave's local needs increases to 20 percent. Under a 100 percent allocation, the State Water Contract provides Mojave Water Agency 82,800 acre-feet of water. Metropolitan's current storage account under these programs is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "—Storage Capacity and Water in Storage" below.

Other Water Purchase, Storage and Exchange Programs in the San Joaquin and Sacramento Valleys. Metropolitan has been negotiating, and will continue to pursue, water purchase, storage and exchange programs with other agencies in the Sacramento and San Joaquin Valleys. These programs involve the storage of both State Water Project supplies and water purchased from other sources to enhance Metropolitan's dry-year supplies and the exchange of normal year supplies to enhance Metropolitan's water reliability and water quality, in view of dry conditions and potential impacts from the ESA cases discussed above under the heading "—State Water Project—*Endangered Species Act Considerations*." In addition, in the fall of 2008 DWR convened the State Drought Water Bank (the "Drought Water Bank") as a one-year program to help mitigate water shortages in 2009. During 2009, Metropolitan purchased 36,900 acre-feet of Central Valley Water supplies through the Drought Water Bank, resulting in approximately 29,000 acre-feet of water deliveries after accounting for carriage and conveyance losses. In calendar year 2010, Metropolitan participated with other State Water Contractors as a group to purchase 88,137 acre-feet of water, resulting in approximately 68,000 acre-feet of deliveries to Metropolitan after carriage and conveyance losses. Additionally during 2010, Metropolitan entered into two transactions with the Westlands Water District and the San Luis Water District, neither of which is subject to carriage losses. Under the first transaction, Metropolitan purchased 18,453 acre-feet of water. In the second, Metropolitan accepted delivery of 110,692 acre-feet of water stored in the San Luis Reservoir, a joint use facility of the State Water Project and federal Central Valley Project, and returned two-thirds of that amount from Metropolitan's State Water Project supply in 2011 for a net yield of approximately 37,000 acre-feet. In 2015, Metropolitan participated with other State Water Contractors to purchase up to 20,340 acre-feet. Metropolitan's projected share of these supplies is up to 12,755 acre-feet, which would be subject to carriage losses resulting in deliveries of up to 10,204 acre-feet to Metropolitan.

Metropolitan entered into an agreement with DWR in December 2007 to purchase a portion of the water released by the Yuba County Water Agency ("YCWA"). YCWA was involved in a SWRCB proceeding in which it was required to increase Yuba River fishery flows. Within the framework of agreements known as the Yuba River Accord, DWR entered into an agreement for the long-term purchase of water from YCWA. Metropolitan, other State Water Project Contractors, and the San Luis Delta Mendota Water Authority entered into separate agreements with DWR for the purchase of portions of water made available. Metropolitan's agreement allows Metropolitan to purchase, in dry years through 2025, available water supplies, which have ranged from approximately 10,000 acre-feet to 67,068 acre-feet per year . The agreement permits YCWA to transfer additional supplies at its discretion. For calendar years 2008, 2009 and 2010, Metropolitan purchased 26,430 acre-feet, 42,915 acre-feet and 67,068 acre-feet of water, respectively, from YCWA under this program. No purchases were made in calendar years 2011 and 2012, due to favorable water supply conditions. In calendar years 2013 and 2014, Metropolitan purchased 10,209 acre-feet and approximately 11,000 acre-feet, respectively. Metropolitan's projected share of YCWA transfer supplies in 2015 is 8,192 acre-feet, which would be subject to carriage losses resulting in deliveries of up to 6,554 acre-feet to Metropolitan.

In 2013, in response to dry conditions, DWR established a new Multi-Year Water Pool Demonstration Program to allow two-year sales of State Water Project supplies between State Water Project Contractors. In 2013 and 2014, Metropolitan purchased 30,000 acre-feet and zero acre-feet of these supplies, respectively. DWR is administering a Multi-Year Water Pool during 2015 and 2016 because of continuing dry conditions. In 2015 Metropolitan purchased 1,374 acre-feet, which is not subject to carriage losses. The amount of water available for purchase in 2016 is not yet known.

Metropolitan/CVWD/Desert Water Agency Exchange and Advance Delivery Agreement. Metropolitan has agreements with the CVWD and the Desert Water Agency ("DWA") in which Metropolitan exchanges its Colorado River water for those agencies' State Water Project contractual water on an annual basis. Because DWA and CVWD do not have a physical connection to the State Water Project, Metropolitan takes delivery of DWA's and CVWD's State Water Project supplies and delivers a like amount of Colorado River water to the agencies. In accordance with an advance delivery agreement executed by Metropolitan, CVWD and DWA, Metropolitan has delivered Colorado River water in advance to these agencies for storage in the Upper Coachella Valley groundwater basin. In years when it is necessary to augment available supplies to meet local demands, Metropolitan has the option to meet the exchange delivery obligation through drawdowns of the advance delivery account, rather than deliver its Colorado River supply. Metropolitan's current storage account under the CVWD/DWA program is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "—Storage Capacity and Water in Storage" below. In addition to the CVWD/DWA exchange agreements, Metropolitan has entered into separate agreements with CVWD and DWA for delivery of non-State Water Project supplies acquired by CVWD or DWA. Similarly, Metropolitan takes delivery of these supplies from State Water Project facilities and incurs an exchange obligation to CVWD or DWA. From 2008 through 2014, Metropolitan has received a net additional supply of 61,965 acre-feet of water acquired by CVWD and DWA.

Other Agreements. Metropolitan is entitled to storage and access to stored water in connection with various storage programs and facilities. See "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct" and "REGIONAL WATER RESOURCES—Local Water Supplies—*Conjunctive Use*" in this Appendix A, as well as the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "—Storage Capacity and Water in Storage" below.

Storage Capacity and Water in Storage

Metropolitan's storage capacity, which includes reservoirs, conjunctive use and other groundwater storage programs within Metropolitan's service area and groundwater and surface storage accounts delivered through the State Water Project or CRA, is approximately 5.83 million acre-feet. In 2014, approximately 626,000 acre-feet of stored water was emergency storage that was reserved for use in the event of supply interruptions from earthquakes or similar emergencies (see "METROPOLITAN'S WATER DELIVERY SYSTEM—Seismic Considerations" in this Appendix A), as well as extended drought. Metropolitan's emergency storage requirement is established periodically to provide a six-month water supply at 75 percent of member agencies retail demand under normal hydrologic conditions. Metropolitan's ability to replenish water storage, both in the local groundwater basins and in surface storage and banking programs, has been limited by Bay-Delta pumping restrictions under the biological opinions issued for listed species. See "—State Water Project—*Endangered Species Act Considerations*" above. Metropolitan replenishes its storage accounts when imported supplies exceed demands. Effective storage management is dependent on having sufficient years of excess supplies to store water so that it can be used during times of shortage. Historically, excess supplies have been available in about seven of every ten years. Metropolitan forecasts that, with anticipated supply reductions from the State Water Project due to pumping restrictions, it will need to draw down on storage in about seven of ten years and will be able to replenish storage in about three years out of ten. This reduction in available supplies extends the time required for storage to recover from drawdowns and could require Metropolitan to implement its Water Supply Allocation Plan during extended dry periods.

As a result of increased State Water Project supplies and reduced demands from 2010 to 2012, Metropolitan rebuilt its storage after several years of withdrawals to approximately 3.375 million acre-feet, including emergency storage. This was the highest end-of-year total water reserves in Metropolitan's history. In 2013, Metropolitan drew 407,000 acre-feet from storage to meet demands, reducing overall storage to 2.968 million acre-feet. Metropolitan withdrew approximately 1.2 million acre-feet from storage in 2014 and 2014 year-end overall storage was approximately 1.8 million acre-feet. The following table shows three years of Metropolitan's water in storage as of January 1, including emergency storage. Approximately 127 thousand acre-feet were withdrawn from storage reserves in the first six months of 2015, leaving 1.72 million acre-feet in storage reserves as of July 1, 2015. Metropolitan staff estimates that the overall storage reserve level as of December 31, 2015 will be about 1.5 million acre-feet.

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

Water Storage Resource	Storage Capacity	Water in Storage January 1, 2015	Water in Storage January 1, 2014	Water in Storage January 1, 2013
Colorado River Aqueduct				
Desert / CVWD Advance Delivery Account	800,000	249,000	260,000	321,000
Lake Mead ICS	1,500,000	151,000	474,000	580,000
Subtotal	**2,300,000**	**400,000**	**734,000**	**901,000**
State Water Project				
Arvin-Edison Storage Program	350,000	165,000	180,000	220,000
Semitropic Storage Program	350,000	186,000	238,000	285,000
Kern Delta Storage Program	250,000	152,000	169,000	179,000
San Bernardino Valley MWD Coordinated Operating Agreement	50,000	-0-	-0-	-0-
Mojave Storage Program	390,000[5]	39,000	39,000	60,000
Castaic Lake and Lake Perris[2]	219,000	-0-	219,000	219,000
Metropolitan Article 56 Carryover[3]	200,000[6]	36,000	49,000	156,000
Other State Water Project Carryover[4]	n/a	-0-	174,000	124,000
Emergency Storage	334,000	328,000	334,000	334,000
Subtotal	**2,143,000**	**906,000**	**1,402,000**	**1, 577,000**
Within Metropolitan's Service Area				
Diamond Valley Lake	810,000	394,000	584,000	690,000
Lake Mathews	182,000	78,000	139,000	102,000
Lake Skinner	44,000	30,000	36,000	38,000
Subtotal[7]	**1,036,000**	**502,000**	**759,000**	**830,000**
Member Agency Storage Programs				
Cyclic Storage, Conjunctive Use, and Supplemental Storage	352,000	28,000	73,000	67,000
Total	**5,831,000**	**1,836,000**	**2,968,000**	**3,375,000**

Source: Metropolitan.

(1) Water storage capacity and water in storage are measured based on engineering estimates and are subject to change.
(2) Flexible storage allocated to Metropolitan under its State Water Contract. Withdrawals must be returned within 5 years.
(3) Article 56 Carryover storage capacity is dependent on the annual State Water Project allocation, which varies from year to year. Article 56 supplies represent water that is allocated to a State Water Project contractor in a given year and carried over to the next year pursuant to the State Water Contract.
(4) Includes Article 56 Carryover from prior years, non-project carryover, and carryover of curtailed deliveries pursuant to Article 14(b) of Metropolitan's State Water Contract.
(5) The Mojave Storage Program agreement was amended in 2011 to allow for cumulative storage of up to 390,000 acre-feet.
(6) Metropolitan's State Water Project carryover capacity ranges from 100,000 to 200,000 acre-feet, on a sliding scale that depends on the final State Water Project allocation. At allocations of 50 percent or less, Metropolitan may store 100,000 acre-feet, and at allocations of 75 percent or greater, Metropolitan may store up to 200,000 acre-feet. For the purposes of this table, the highest possible carryover capacity is displayed.
(7) Includes 292,000 acre-feet of emergency storage in Metropolitan's reservoirs in 2013 and 2014, and 298,000 acre-feet in 2015.

Water Conservation

The central objective of Metropolitan's water conservation program is to help ensure adequate, reliable and affordable water supplies for Southern California by actively promoting efficient water use. The importance of conservation to the region has increased in recent years because of drought conditions in the State Water Project watershed and court-ordered restrictions on Bay-Delta pumping, as described under "—State Water Project" above. Water conservation is an integral component of Metropolitan's IRP Strategy, WSDM plan and Water Supply Allocation Plan, each described in this Appendix A under "METROPOLITAN'S WATER SUPPLY."

Metropolitan's conservation program has largely been developed to assist its member agencies in meeting the "best management practices" ("BMP") of the California Urban Water Conservation Council's Memorandum of Understanding Regarding Urban Water Conservation in California ("CUWCC MOU") and to meet the conservation goals of the 2010 IRP Update. See "—Integrated Water Resources Plan" above. Under the terms of the CUWCC MOU and Metropolitan's Conservation Credits Program, Metropolitan assists and co-funds member agency conservation programs designed to achieve greater water use efficiency in residential, commercial, industrial, institutional and landscape uses. Metropolitan uses its Water Stewardship Rate, which is charged for every acre-foot of water conveyed by Metropolitan, together with available grant funds, to fund conservation incentives and other water management programs. All users of Metropolitan's system benefit from the system capacity made available by investments in demand management programs like the Conservation Credits Program. See "METROPOLITAN REVENUES—Rate Structure—*Water Stewardship Rate*" in this Appendix A. Direct spending by Metropolitan on active conservation incentives, including rebates for water-saving plumbing fixtures, appliances and equipment, from fiscal year 1989-90 through fiscal year 2014-15 was about $487 million. On May 26, 2015, the Board approved an additional $350 million for Metropolitan's conservation budget, resulting in total funding of $450 million over fiscal years 2014-15 and 2015-16. As of September 2015, $104 million was rebated and an additional $143 million has been committed to the turf replacement program. The 2010 Integrated Water Resources Plan Update estimates that 1,037,000 acre-feet of water will be conserved annually in southern California by 2025. See "—Integrated Water Resources Plan" and —Drought Response Actions" above.

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

Metropolitan's plan for allocation of water supplies in the event of shortage (the "Water Supply Allocation Plan"; see "—Water Supply Allocation Plan" below) allocates Metropolitan's water supplies among its member agencies, based on the principles contained in the WSDM plan, to reduce water use and drawdowns from water storage reserves. Metropolitan's member agencies and retail water suppliers in Metropolitan's service area also have the ability to implement water conservation and allocation programs, and some of the retail suppliers in Metropolitan's service area have initiated conservation measures. The success of conservation measures in conjunction with the Water Supply Allocation Plan is evidenced as a contributing factor in the lower than budgeted water sales during fiscal years 2009-10, 2010-11 and 2011-12.

Legislation approved in November 2009 sets a statewide conservation target for urban per capita water use of 20 percent reductions by 2020 (with credits for existing conservation) at the retail level, providing an additional catalyst for conservation by member agencies and retail suppliers. Metropolitan's water sales projections incorporate an estimate of conservation savings that will reduce retail demands. Current projections include an estimate of additional water use efficiency savings that would result from local agencies reducing their per capita water use in response to the 20 percent by 2020 conservation savings goals required by recent legislation as well as an estimate of additional conservation that would have to occur to reach Metropolitan's IRP goal of reducing overall regional per capita water use by 20 percent by 2020.

Water Surplus and Drought Management Plan

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

Water Supply Allocation Plan

The Water Supply Allocation Plan was approved by Metropolitan's Board in February 2008 and has since been implemented three times, including the most recent in April 2015. The Water Supply Allocation Plan provides a formula for equitable distribution of available water supplies in case of extreme water shortages within Metropolitan's service area. Although the Act gives each of Metropolitan's member agencies a preferential entitlement to purchase a portion of the water served by Metropolitan (see "METROPOLITAN REVENUES—Preferential Rights"), historically, these rights have not been used in allocating Metropolitan's water. Metropolitan's member agencies and retail water suppliers in Metropolitan's service area also may implement water conservation and allocation programs within their respective service territories in times of shortage.

On December 9, 2014, the Board approved adjustments to the formula for calculating member agency supply allocations for future implementation of the Water Supply Allocation Plan. On April 14, 2015, the Board declared a Water Supply Condition 3 and the implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level, effective July 1, 2015 through June 30, 2016. See "—Drought Response Actions" above. Implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level, and response to the Governor's Order (see "—Drought Response Actions" above) is anticipated to reduce supplies delivered by Metropolitan to Metropolitan's member agencies to approximately 1.6 million acre-feet in fiscal year 2015-16.

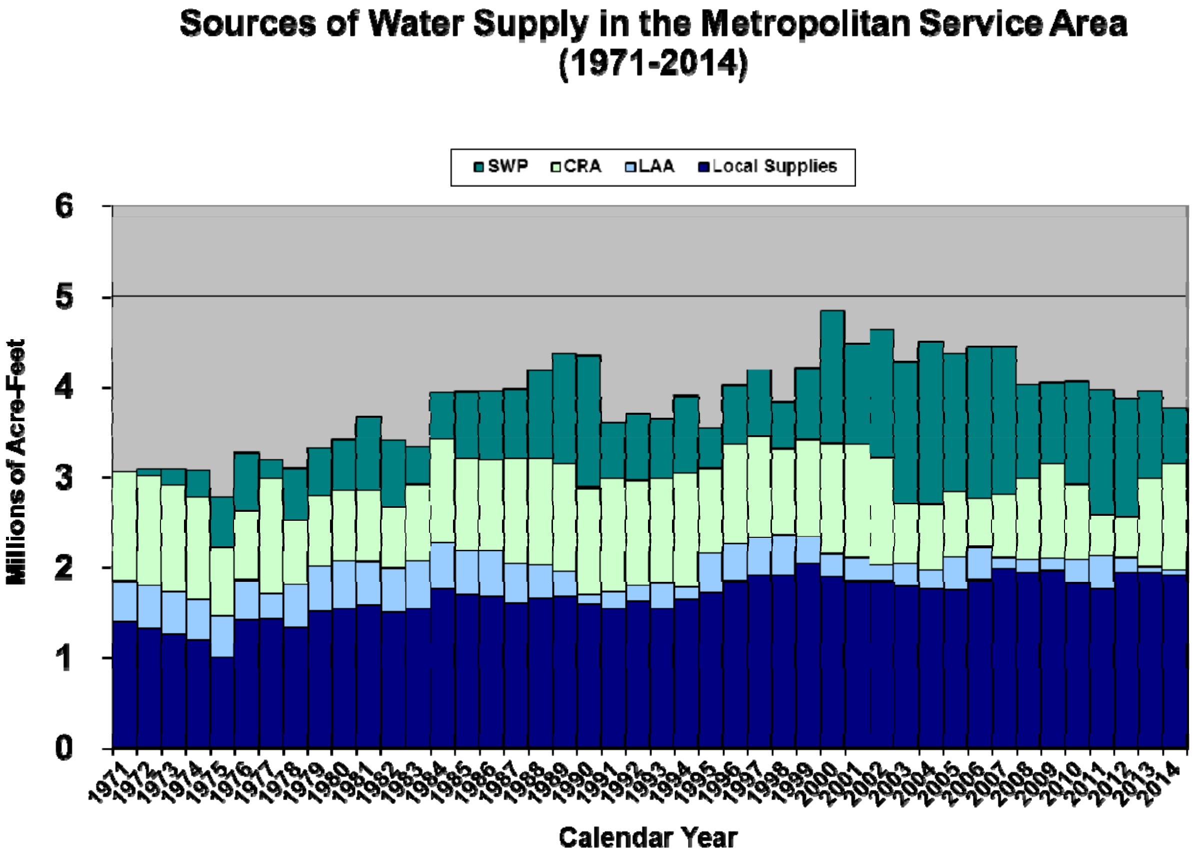
REGIONAL WATER RESOURCES

The water supply for Metropolitan's service area is provided in part by Metropolitan and in part by non-Metropolitan sources available to members. Approximately 60 percent of the water supply for Metropolitan's service area is imported water received by Metropolitan from the CRA and the State Water Project and by the City of Los Angeles (the "City") from the Los Angeles Aqueduct. While the City is one of the largest water customers of Metropolitan, it receives a substantial portion of its water from the Los Angeles Aqueduct and local groundwater supply. The balance of water within the region is produced locally, primarily from groundwater supplies and runoff.

Metropolitan's member agencies are not required to purchase or use any of the water available from Metropolitan. Some agencies depend on Metropolitan to supply nearly all of their water needs, regardless of the weather. Other agencies, with local surface reservoirs or aqueducts that capture rain or snowfall, rely on Metropolitan more in dry years than in years with heavy rainfall, while others, with ample groundwater supplies, purchase Metropolitan water only to supplement local supplies and to recharge groundwater basins. The demand for supplemental supplies provided by Metropolitan is dependent on water use at the retail consumer level and the amount of locally supplied and conserved water. See "METROPOLITAN'S WATER SUPPLY—Water Conservation" in this Appendix A and "—Local Water Supplies" below. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales. Future reliance on Metropolitan supplies will be dependent, among other things, on local projects and the amount of water, if any, that may be derived from sources other than Metropolitan. In recent years, supplies and demands have been affected by drought, water use restrictions, economic conditions, weather conditions and environmental laws, regulations and judicial decisions, as described in this Appendix A under

"METROPOLITAN'S WATER SUPPLY." For information on Metropolitan's water sales revenues, see "METROPOLITAN REVENUES" and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

The following graph shows a summary of the regional sources of water supply for the years 1971 to 2014. Local supplies available within Metropolitan's service area are augmented by water imported by the City through the Los Angeles Aqueduct and Metropolitan supplies provided through the CRA and State Water Project.



Source: Metropolitan.

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

Los Angeles Aqueduct

The City, through its Department of Water and Power ("LADWP"), operates its Los Angeles Aqueduct system to import water from the Owens Valley and the Mono Basin on the eastern slopes of the Sierra Nevada in eastern California. Prior to the 1990-1991 drought, the City had imported an average of 440,000 acre-feet of water annually from the combined Owens Valley/Mono Basin system, of which about 90,000 acre-feet came from the Mono Basin. Under the Mono Lake Basin Water Right Decision (Decision 1631) issued in September 1994, which revised LADWP's water rights licenses in the Mono Basin, the City is limited to export 16,000 acre-feet annually from the Mono Basin until it reaches its target elevation of 6,391 feet above mean sea level.

Pursuant to the City's turnout agreement with DWR, Antelope Valley-East Kern Water Agency ("AVEK") and Metropolitan, LADWP commenced construction in 2010 of the turnout facilities along the California Aqueduct within AVEK's service area. Upon completion, expected in 2016, the turnout will enable delivery of water from the California Aqueduct to the Los Angeles Aqueduct. Conditions precedent to such delivery of water include obtaining agreements for the transfer of non-State Water Project water directly from farmers, water districts or others in Northern and Central California, available capacity in the California Aqueduct and compliance with State Water Project water quality requirements. The agreement allows for use of the turnout for delivery of non-State Water Project water to the City in amounts not to exceed the supplies lost to the City as a result of its Eastern Sierra environmental obligations.

Historically, the Los Angeles Aqueduct and local groundwater supplies have been nearly sufficient to meet the City's water demands during normal water supply years. As a result, prior to the 1990-1991 drought, only about 13 percent of the City's water needs (approximately 82,000 acre-feet) were supplied by Metropolitan. From fiscal year 2000-01 to fiscal year 2014-15, approximately 31 to 75 percent of the City's total water requirements were met by Metropolitan. For the five fiscal years ended June 30, 2015, the City's water deliveries from Metropolitan averaged approximately 314,000 acre-feet per year, which constituted approximately 57 percent of the City's total water supply. Deliveries from Metropolitan to the City during this period varied between approximately 166,000 acre-feet per year and approximately 442,000 acre-feet per year. See "METROPOLITAN REVENUES—Principal Customers" in this Appendix A. According to LADWP's Year 2010 Urban Water Management Plan, the City is planning to increase locally-developed supplies including recycled water, new conservation, stormwater capture and local groundwater from the average for the five-year period ending June 30, 2010 of 12 percent to 43 percent of its normal year supplies by fiscal year 2034-35. Accordingly, the City's reliance on Metropolitan supplies will decrease from the five year average ending June 30, 2010 of 52 percent to 24 percent of its normal year supplies by fiscal year 2034-35. However, the City may still purchase up to 511,000 acre-feet per year or 82 percent of its dry year supplies from Metropolitan until 2035. This corresponds to an increase from normal to dry years of approximately 257,000 acre-feet in potential demand for supplies from Metropolitan.

LADWP analyzed the additional impacts to the Los Angeles Aqueduct's water supply deliveries for various environmental projects aimed at improving air quality and fish and riparian habitat in the Owens Valley. LADWP reports that, in 2013, 62 percent of its Los Angeles Aqueduct water was devoted to dust and environmental mitigation projects in the Owens Valley and Eastern Sierra, resulting in the need to purchase an equivalent amount of Metropolitan supply. In November 2014, LADWP reached an agreement over implementation of dust control measures on Owens Lake, which is expected to save nearly 8,600 acre-feet of water in 2015 and expand water savings in the future.

Local Water Supplies

Local water resources include groundwater production, recycled water production and diversion of surface flows. While local water resources are non-Metropolitan sources of water supply, Metropolitan has executed agreements for storage of Metropolitan supplies in local groundwater basins and provided incentives for local supply development. Metropolitan's primary incentive program for local supply development is the Local Resource Program ("LRP"), which provides financial incentives up to $340 per acre-foot of water production from local water recycling, groundwater recovery and seawater desalination projects. Member agencies and other local agencies have also independently funded and developed additional local supplies, including groundwater storage and clean-up, recycled water and desalination of brackish or high salt content water.

Metropolitan's water sales projections are based in part on projections of locally-supplied water. Projections of future local supplies are based on estimated yields from sources and projects that are currently producing water or are under construction at the time a water sales projection is made. Additional reductions in Metropolitan's water sales projections are made to account for future local supply augmentation projects, based on the 2010 IRP Update goals. See "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES—Water Sales Projections" and "METROPOLITAN'S WATER SUPPLY—The Integrated Water Resources Plan" in this Appendix A.

Groundwater. Demands for about 1.5 million acre-feet per year, about one-third of the annual water demands for approximately 18.5 million residents of Metropolitan's service area, are met from groundwater production. Local groundwater supplies are supported by recycled water, which is blended with imported water and recharged into groundwater basins, and also used for creating seawater barriers that protect coastal aquifers from seawater intrusion.

Groundwater Storage Programs. Metropolitan has executed agreements with a number of agencies to develop groundwater storage projects in its service area. These projects are designed to help meet the water delivery reliability goals of storing surplus imported supplies when available so that local agencies can withdraw stored groundwater during droughts or other periods of water supply shortage. In 2000, Metropolitan was allocated $45 million in State Proposition 13 bond proceeds to develop groundwater storage projects in Metropolitan's service area. The nine projects provide about 210,000 acre-feet of groundwater storage and have a combined extraction capacity of about 70,000 acre-feet per year. During fiscal year 2008-09, over 70,000 acre-feet of stored water was produced and sold from these storage accounts. Fiscal year 2009-10 sales from the nine accounts totaled nearly 41,000 acre-feet, leaving a balance of approximately 26,000 acre-feet in the storage accounts. Metropolitan began refilling the programs in fiscal year 2010-11. As of June 2015, the balance in the nine accounts was approximately 20,000 acre-feet. Metropolitan called the remaining acre-feet to be produced from these storage accounts during the 12-month period from July 2015 through June 2016. See table "Metropolitan's Water Storage Capacity and Water in Storage" under "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in this Appendix A.

Recovered Groundwater. Contamination of groundwater supplies is a growing threat to local groundwater production. Metropolitan has been supporting increased groundwater production and improved regional supply reliability by offering financial incentives to agencies for production and treatment of degraded groundwater since 1991. Metropolitan has executed agreements with local agencies to provide financial incentives to 24 projects that recover contaminated groundwater with total contract yields of about 112,500 acre-feet per year. During fiscal year 2014-15, Metropolitan provided incentives for approximately 48,600 acre-feet of recovered water under these agreements. Total groundwater recovery use under executed agreements is expected to grow to 88,000 acre-feet in 2020.

Surface Runoff. Local surface water resources consist of runoff captured in storage reservoirs and diversions from streams. Since 1980, agencies have used an average of 116,000 acre-feet per calendar year of local surface water. Local surface water supplies are heavily influenced by year to year local weather conditions, varying from a high of 188,000 acre-feet in calendar year 1998 to a low of 65,000 acre-feet in calendar year 2003.

Conjunctive Use. Conjunctive use is accomplished when groundwater basins are used to store imported supplies during water abundant periods. The stored water is used during shortages and emergencies with a corresponding reduction in surface deliveries to the participating agencies. Regional benefits include enhancing Metropolitan's ability to capture excess surface flows during wet years from both the State Water Project and Colorado River. Groundwater storage is accomplished using spreading basins, injection wells, and in-lieu deliveries where imported water is substituted for groundwater, and the groundwater not pumped is considered stored water.

Metropolitan has promoted conjunctive use at the local agency level under its Replenishment Service Program by discounting rates for imported water placed into groundwater or reservoir storage during wet months. The discounted rate and program rules encouraged construction of additional groundwater production facilities allowing local agencies to be more self-sufficient during shortages. (See "–*Groundwater Storage Programs*" above.) In calendar year 2006, Metropolitan delivered approximately 247,000 acre-feet of water as replenishment water. In calendar year 2007, Metropolitan delivered approximately 46,000 acre-feet of water as replenishment water through May 1, 2007 then discontinued such deliveries until May 10, 2011 when Metropolitan's Board authorized sale of up to 225,000 acre-feet of discounted replenishment service deliveries to member agencies for the remainder of calendar year 2011. In calendar year 2011, Metropolitan delivered approximately 225,000 acre-feet of this discounted replenishment water. No replenishment sales were budgeted for fiscal year 2012-13 and thereafter. The Replenishment Service Program was discontinued effective December 31, 2012. See "METROPOLITAN REVENUES—Classes of Water Service—*Replenishment*" and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES—Water Sales Projections" in this Appendix A.

Recycled Water. Metropolitan has supported recycled water use to offset water demands and improve regional supply reliability by offering financial incentives to agencies for production and sales of recycled water since 1982. Metropolitan has executed agreements with local agencies to provide financial incentives to 75 recycled water projects with total contract yields of about 306,400 acre-feet per year. During fiscal year 2014-15, Metropolitan provided incentives for approximately 184,500 acre-feet of reclaimed water under these agreements. Total recycled water use under executed agreements is expected to be approximately 166,000 acre-feet by 2020.

Seawater Desalination. Metropolitan's IRP includes seawater desalination as a core local supply and supports foundational actions to lay the groundwork for accelerating seawater desalination development as needed in the future. To encourage local development, Metropolitan has signed Seawater Desalination Program ("SDP") incentive agreements with three of its member agencies: Long Beach, Municipal Water District of Orange County ("MWDOC") and West Basin Municipal Water District. The SDP agreements provide incentives to the member agencies of up to $250 per acre-foot when the desalinated supplies are produced. Agreement terms are for the earlier of 25 years or through 2040 and are designed to phase out if Metropolitan's rates surpass the unit cost of producing desalinated seawater. SDP agreements are subject to final approval by Metropolitan's Board after review of the complete project description and environmental documentation. These projects are currently in the development phase and collectively are anticipated to produce up to 46,000 acre-feet annually. In addition, in October 2014, seawater desalination projects became eligible for funding under Metropolitan's Local Resources Program.

In November 2012, SDCWA approved a water purchase agreement with Poseidon Resources LLC ("Poseidon Resources") for a seawater desalination project in Carlsbad (the "Carlsbad Project") to provide a minimum of 48,000 acre-feet and a maximum of 56,000 acre-feet of desalinated supplies to SDCWA per year. The Carlsbad Project is anticipated to be completed by the end of 2015.

Other seawater desalination projects that could provide supplies to Metropolitan's service area are under development or consideration. Poseidon Resources is developing a 56,000 acre-feet per year plant in Huntington Beach which is currently in the permitting phase. SDCWA is studying the potential for a seawater desalination plant in Camp Pendleton which would initially produce up to 56,000 acre-feet per year and potentially up to 168,000 acre-feet per year with a phased build out. Otay Water District, located in San Diego County along the Mexico border, is considering the feasibility of purchasing water from a privately-developed seawater desalination project in Rosarito Beach, Mexico. The 56,000 to 112,000 AFY project is in the pilot testing phase, and could also supply Metropolitan's service area through exchange agreements. Approvals from a number of U.S. and Mexican federal agencies, along with State and local approvals, would be needed for the cross-border project to proceed.

METROPOLITAN'S WATER DELIVERY SYSTEM

Method of Delivery

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

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

State Water Project. The initial portions of the State Water Project serving Metropolitan were completed in 1973. State Water Project facilities are owned and operated by DWR. Twenty-nine agencies have entered into contracts with DWR to receive water from the State Water Project. See "METROPOLITAN'S WATER SUPPLY—State Water Project" in this Appendix A.

Internal Distribution System. Metropolitan's internal water distribution system includes components that were built beginning in the 1930s and through the present. Metropolitan owns all of these components, including 14 dams and reservoirs, five regional treatment plants, over 800 miles of transmission pipelines, feeders and canals, and 16 hydroelectric plants with an aggregate capacity of 131 megawatts.

Diamond Valley Lake. Diamond Valley Lake, a man-made reservoir located southwest of the city of Hemet, California, covers approximately 4,410 acres and has capacity to hold approximately 810,000 acre-feet or 265 billion gallons of water. Diamond Valley Lake was constructed to serve approximately 90 percent of Metropolitan's service area by gravity flow. Imported water is delivered to Diamond Valley Lake during surplus periods. The reservoir provides more reliable delivery of imported water from the State Water Project and the CRA during summer months, droughts and emergencies. In addition, Diamond Valley Lake is capable of providing more than one-third of Southern California's water needs from storage for approximately six months after a major earthquake (assuming that there has been no impairment of Metropolitan's internal distribution network). See the table "Metropolitan's Water Storage Capacity and Water in Storage" under "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in this Appendix A for the amount of water in storage at Diamond Valley Lake. Excavation at the project site began in May 1995. Diamond Valley Lake was completed in March 2000, at a total cost of $2 billion, and was in full operation in December 2001.

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

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

Water Treatment

Metropolitan filters and disinfects water at five water treatment plants: the F.E. Weymouth Treatment Plant, the Joseph Jensen Treatment Plant, the Henry J. Mills Treatment Plant, the Robert B. Diemer Treatment Plant and the Robert A. Skinner Treatment Plant. The plants treat an average of between 0.9 billion and 1.2 billion gallons of water per day, and have a maximum capacity of approximately 2.6 billion gallons per day. Approximately 55 percent of Metropolitan's water deliveries are treated water.

Federal and state regulatory agencies continually monitor and establish new water quality standards. New water quality standards could affect availability of water and impose significant compliance costs on Metropolitan. The Safe Drinking Water Act ("SDWA") was amended in 1986 and again in 1996. The SDWA establishes drinking water quality standards, monitoring, public notification and enforcement requirements for public water systems. To achieve these objectives, the U.S. Environmental Protection Agency ("USEPA"), as the lead regulatory authority, promulgates national drinking water regulations and develops the mechanism for individual states to assume primary enforcement responsibilities. For the first time in more than 30 years, the USEPA recently revised the federal Water Quality Standards ("WQS") regulation that helps to implement the Clean Water Act ("CWA"). As a result of the WQS changes, states and authorized tribes may need to consider and implement new provisions, or revise existing provisions, in their WQS. Also, WQS may be used in determining National Pollutant Discharge Elimination System permit limits or in implementing other CWA programs. The revised WQS regulation became effective on October 20, 2015. The SWRCB Division of Drinking Water ("DDW") has lead authority over California water agencies. Metropolitan continually monitors new water quality laws and regulations and frequently comments on new legislative proposals and regulatory rules.

Seismic Considerations

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

Metropolitan has an ongoing surveillance program that monitors the safety and structural performance of its 14 dams and reservoirs. Operating personnel perform regular inspections that include monitoring and analyzing seepage flows and pressures. Engineers responsible for dam safety review the inspection data and monitor the horizontal and vertical movements for each dam. Major on-site inspections are performed at least twice each year. Instruments that transmit seismic acceleration time histories for analysis any time a dam is subjected to strong motion during an earthquake are located at a number of selected sites.

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

Metropolitan also maintains machine, fabrication and coating shops at its facility in La Verne, California. Several construction contracts have been completed over the last few years to upgrade and expand these shops. A total of nearly $37 million has been invested to enhance Metropolitan's capacity to not only provide fabrication and coating services for planned rehabilitation work, maintenance activities, and capital projects, but to also perform emergency fabrication support to Metropolitan and its member agencies. Metropolitan has also maintained reimbursable agreements with DWR to perform machining, fabrication, and coating services for critical repair and rehabilitation of State Water Project facilities. These agreements have enhanced timely and cost-effective emergency response capabilities. Materials to fabricate pipe and other appurtenant fittings are kept in inventory at the La Verne site. In the event of earthquake damage, Metropolitan has taken measures to provide the design and fabrication capacity to fabricate pipe and related fittings. Metropolitan is also staffed to perform emergency repairs and has pre-qualified contractors for emergency repair needs at various locations throughout Metropolitan's service area.

State Water Project Facilities. The California Aqueduct crosses all major faults either by canal at ground level or by pipeline at very shallow depths to ease repair in case of damage from movement along a fault. State Water Project facilities are designed to withstand major earthquakes along a local fault or magnitude 8.1 earthquakes along the San Andreas Fault without major damage. Dams, for example, are designed to accommodate movement along their foundations and to resist earthquake forces on their embankments. Earthquake loads have been taken into consideration in the design of project structures such as pumping and power plants. The location of check structures on the canal allows for hydraulic isolation of the fault-crossing repair.

While the dams, canals, pump stations and other constructed State Water Project facilities have been designed to withstand earthquake forces, the critical supply of water from Northern California must traverse the Bay-Delta through hundreds of miles of varying levels of engineered levees that are susceptible to major failures due to flood and seismic risk. In the event of a failure of the Bay-Delta levees, the quality of the Bay-Delta's water could be severely compromised as salt water comes in from the San Francisco Bay. Metropolitan's supply of State Water Project water would be adversely impacted if pumps that move Bay-Delta water southward to the Central Valley and Southern California are shut down to contain the salt water intrusion. Metropolitan estimates that stored water supplies, CRA supplies and local water resources that would be available in case of a levee breach or other interruption in State Water Project supplies would meet demands in Metropolitan's service area for approximately twelve months. See "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in this Appendix A. Since the State and Federal governments control the Bay-Delta levees, repair of any levee failures would be the responsibility of and controlled by the State and Federal governments.

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

Perris Dam. Perris Dam forms Lake Perris, the terminal reservoir for the State Water Project in Riverside County, with maximum capacity of approximately 130,000 acre-feet of water. DWR reported in July 2005 that seismic studies indicate that DWR's Perris Dam facility could sustain damage from moderate earthquakes along the San Jacinto or San Andreas faults due to potential weaknesses in the dam's foundation. In late 2005, DWR lowered the water level in the reservoir by about 25 feet and reduced the amount of water stored in the reservoir to about 75,000 acre-feet as DWR evaluated alternatives for repair of the dam. In December 2006, DWR completed a study identifying various repair options, began additional geologic exploration along the base of Perris Dam and started preliminary design. DWR's preferred alternative is to repair the dam to restore the reservoir to its historical level. On November 11, 2011, DWR certified the final EIR and filed a Notice of Determination stating its intent to proceed with the preferred alternative. DWR estimates that repairs will cost approximately $141 million to be completed in mid-2017. Under the original allocation of joint costs for this facility, the State would have paid approximately six percent of the repair costs. However, because of the recreational benefit this facility provides to the public, the Legislature has approved a recommendation from DWR that the State assume 32.2 percent of these repair costs. The remaining 67.8 percent of repairs costs will be paid for by the three agencies that use the water stored in Lake Perris: Metropolitan (42.9 percent), Desert Water Agency (3.0 percent) and Coachella Valley Water District (21.9 percent). See "METROPOLITAN EXPENDITURES–State Water Contract Obligations" in this Appendix A.

Security Measures

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

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

CAPITAL INVESTMENT PLAN

General Description

Metropolitan's current Capital Investment Plan (the "Capital Investment Plan" or "CIP") involves expansion and rehabilitation of existing facilities and construction of new facilities to meet future water demands, ensure system reliability as well as enhance operational efficiency and flexibility, and comply with water quality regulations. Metropolitan's CIP is regularly reviewed and updated. Implementation and construction of specific elements of the program are subject to Board approval, and the amount and timing of borrowings will depend upon, among other factors, status of construction activity and water demands within Metropolitan's service area. From time to time projects that have been undertaken are delayed, redesigned or deferred by Metropolitan for various reasons and no assurance can be given that a project in the CIP will be completed in accordance with its original schedule or that any project will be completed as currently planned.

Projection of Capital Investment Plan Expenditures

The table below sets forth the projected CIP expenditures in the adopted biennial budget for fiscal years 2014-15 and 2015-16, including replacement and refurbishment expenditures, by project type for the fiscal years ending June 30, 2016 through 2020. This estimate is updated bi-annually as a result of the periodic review and adoption of the capital budget by Metropolitan's Board of Directors. See "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

CAPITAL INVESTMENT PLAN
PROJECTION OF EXPENDITURES(1) (2)
(Fiscal Years Ended June 30 - Dollars in Thousands)

Cost of Service	2016(3)	2017	2018	2019	2020	Total
Conveyance &Aqueduct	$22,311	$27,168	$46, 281	$46,119	$44,588	$186,467
Storage	12,562	1,999	-	-	-	14,561
Distribution	51,642	69,826	112,699	135,673	157,608	527,448
Treatment	148,652	121,390	95,124	79,270	73,772	518,208
Administrative and General	30,393	50,357	26,484	23,214	16,719	147,167
Hydroelectric	2,308	4,067	467	120	686	7,648
Total(2)	$267,868	$274,807	$281,055	$284,396	$293,373	$1,401,499

Source: Metropolitan.

(1) Fiscal years 2015-16 through 2019-20 based on the adopted biennial budget for fiscal years 2014-15 and 2015-16. Totals are rounded.
(2) Annual totals include replacement and refurbishment expenditures for fiscal years 2015-16 through 2019-20 of $162 million, $159 million, $223 million, $250 million, and $267 million, respectively, for a total of $1.06 billion for fiscal years 2015-16 through 2019-20.
(3) Total Capital Investment Plan expenditures for FY 2015-16 are currently estimated at $225 million.

The above projections do not include amounts for contingencies, but include escalation at 2.77 percent per year for projects for which formal construction contracts have not been awarded. Additional capital costs may arise in the future as a result of, among other things, federal and State water quality regulations, project changes and mitigation measures necessary to satisfy environmental and regulatory requirements, and for additional facilities. See "METROPOLITAN'S WATER DELIVERY SYSTEM—Water Treatment" in this Appendix A.

Capital Investment Plan Financing

The CIP 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. The Board has adopted an internal funding objective to fund all capital program expenditures required for replacements and refurbishments of Metropolitan facilities from current revenues. However, in order to reduce drawdowns of reserve balances and to mitigate financial risks that could occur in upcoming years, actual pay-as-you-go funding was less than projected amounts during fiscal years 2007-08 through 2012-13. During this period, pay-as-you-go funding was reduced to $256 million, rather than the $521 million originally projected. For fiscal years 2013-14 and 2014-15, pay-as-you-go funding was not reduced and reflected amounts sufficient to fund the CIP in those years.

On April 8, 2014, Metropolitan's Board approved a total of $466 million for pay-as-you-go expenditures as part of the biennial budget for fiscal year 2014-15 and fiscal year 2015-16. These pay-as-you-go funds, together with funds available in the Replacement and Refurbishment Fund, were expected to fund $513 million in CIP expenditures for fiscal year 2014-15 and fiscal year 2015-16. As in prior years, pay-as-you-go funding may be reduced or increased by the Board during the fiscal year. To limit the accumulation of cash and investments in the Replacement and Refurbishment Fund, the maximum balance in this fund at the end of each fiscal year will be $160 million. Amounts above the $160 million limit will be transferred to the Revenue Remainder Fund and may be used for any lawful purpose. See "METROPOLITAN REVENUES—Financial Reserve Policy" in this Appendix A. The remainder of capital program expenditures will be funded through the issuance from time to time of water revenue bonds, which are payable from Net Operating Revenues. Metropolitan's budget assumptions for the adopted biennial budget for fiscal years

2014-15 and 2015-16 provide for the issuance of no additional water revenue bonds to fund the CIP in fiscal years 2014-15 through 2016-17, $40 million of water revenue bonds in fiscal year 2017-18, $100 million of water revenue bonds in fiscal year 2018-19 and $110 million in fiscal year 2019-20. The cost of these projected bond issues are reflected in the financial projections under, "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

On July 14, 2015, Metropolitan's Board authorized the use of tax-exempt bond proceeds or other forms of indebtedness to reimburse up to $300 million of CIP expenditures for projects funded from Metropolitan's General Fund and the Replacement and Refurbishment Fund. In addition, on July 14, 2015, Metropolitan's Board approved $264 million to acquire various properties in Riverside and Imperial Counties, with $160 million funded from the Replacement and Refurbishment Fund and the remaining amount from unrestricted reserves. On October 13, 2015, Metropolitan's Board adopted an ordinance that made certain findings that are required prior to the issuance of new revenue bonds in an amount not to exceed $500 million. On November 10, 2015, Metropolitan's Board authorized the issuance of water revenue bonds, not to exceed $250 million in total, that could be used to reimburse pay-as-you-go expenditures for the CIP as described above and for future CIP expenditures. Metropolitan is considering acquiring a line of credit for up to $400 million that could be accessed on a revolving basis to fund capital expenditures, provide reimbursement for capital expenditures, refund outstanding obligations, or as a source for working capital on a short-term basis.

Major Projects of Metropolitan's Capital Investment Plan

Oxidation Retrofit Facilities. The oxidation retrofit facilities program includes the design and construction of oxidation facilities and appurtenances at all of Metropolitan's treatment plants. This program is intended to allow Metropolitan to meet drinking water standards for disinfection by-products and reduce taste and odor incidents. The first phase of the oxidation retrofit program, at Metropolitan's Henry J. Mills Treatment Plant in Riverside County, was completed in 2003. Oxidation retrofit at the Joseph Jensen Treatment Plant was completed July 1, 2005. The cost for these two projects was approximately $236.4 million. Oxidation retrofit at the Robert A. Skinner plant was substantially completed in December 2009 and operational in 2010, with follow-up work completed in June 2014. Expenditures at the Skinner plant through June 2015 were $243.3 million. Total oxidation program costs at the Skinner plant are estimated to be $245.5 million. Construction of the oxidation retrofit facilities at the Robert B. Diemer Treatment Plant was completed in June 2013. All testing and start-up work was completed in 2015 and the new facilities are in full operation. Program expenditures at the Diemer plant through June 2015 were $360.5 million and the total program cost is projected to be $370.0 million. The construction contract for the Weymouth oxidation facilities, the last Metropolitan treatment plant to be retrofitted, was awarded in June 2012. Oxidation program costs at the F.E. Weymouth Treatment Plant, based upon the adopted budget, were estimated to be $338.5 million. Due to the ongoing highly competitive bidding environment, the awarded construction contract was more than $100 million below the budgeted amount. Expenditures at the Weymouth plant through June 2015 were $190.2 million and completion is expected in fiscal year 2016-17. Total oxidation program costs at the F.E. Weymouth plant are estimated to be $270.0 million.

F.E. Weymouth Treatment Plant Improvements. The F.E. Weymouth Treatment Plant was built in 1938 and subsequently expanded several times over the following 25 years. It is Metropolitan's oldest water treatment facility. Metropolitan has completed several upgrades and refurbishment/replacement projects to maintain the plant's reliability and improve its efficiency. These include power systems upgrades, a residual solids dewatering facility, refurbishment/replacement of the mechanical equipment in two of the eight flocculation and settling basins, a new plant maintenance facility, new chemical feed systems and storage tanks, replacement of the plant domestic/fire water system, seismic upgrades to the plant inlet structure, and a new chlorine handling and containment facility. During the past fiscal year, seismic retrofit of the filter buildings was completed. Planned projects over the next several years include refurbishment of the plant's filters and settling 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 $422.5 million, with $210.8 million spent through June

2015. Budgeted aggregate capital expenditures for improvements at the Weymouth plant for fiscal years 2014-15 and 2015-16 are $42.8 million.

Robert B. Diemer Treatment Plant Improvements. The Robert B. Diemer Treatment Plant was built in 1963 and subsequently expanded in 1968. It is Metropolitan's second oldest water treatment facility and has a capacity to treat 520 million gallons of water a day. Several upgrades and refurbishment/replacement projects have been completed at the Diemer plant, including power system upgrades, a new residual solids dewatering facility, new vehicle and plant maintenance facilities, new chemical feed systems and storage tanks, a new chlorine handling and containment facility, construction of a roller-compacted concrete slope stabilization system and a new secondary access road. Planned projects over the next several years include refurbishment of the plant's settling basins, seismic retrofits to the filter buildings and administration building, and replacement of the valves used to control filter operation. The current cost estimate for all prior and projected improvements at the Diemer Treatment Plant, not including the ozone facilities, is approximately $384.3 million, with $206.6 million spent through June 2015. Budgeted aggregate capital expenditures for improvements at the Diemer plant for fiscal years 2014-15 and 2015-16 are $59.4 million.

Colorado River Aqueduct Facilities. Deliveries through the CRA began in 1941. Through annual inspections and maintenance activities, the performance and reliability of the various components of the CRA are regularly evaluated. A major overhaul of the pump units at the five pumping plants was completed in 1988. Refurbishment or replacement of many of the electrical system components, including the transformers, circuit breakers and motor control centers, is currently under way. Projects completed over the past 10 years include replacement of high voltage circuit breakers and transformers at the five pumping plant switchyards, refurbishment of operators and power centers on the head gates downstream of the pumping plants, refurbishment/replacement of 15 isolation/control gates, replacement of cast iron pipe and other components at over 200 outlet structures with stainless steel components, replacement of pumping plant inlet trash racks, replacement of several miles of deteriorated concrete canal liner, and replacement of the outlet gates and appurtenant electrical, mechanical, and control systems at the Copper Basin Reservoir. Additionally, many of the mechanical components at all five pumping plants will be evaluated and replaced or refurbished over the next several years. The currently projected cost estimate for all prior and planned refurbishment or replacement projects is $468.2 million. Costs through June 2015 were $173.7 million. Budgeted aggregate capital expenditures for improvements on the CRA for fiscal years 2014-15 and 2015-16 are $53.3 million.

Distribution System – Prestressed Concrete Cylinder Pipe. Metropolitan's distribution system (see "METROPOLITAN'S WATER DELIVERY SYSTEM" in this Appendix A) is comprised of approximately 830 miles of pipelines ranging in diameter from 30 inches to over 200 inches. 163 miles of the distribution system is made up of prestressed concrete cylinder pipe ("PCCP"). In response to PCCP failures experienced by several water agencies, Metropolitan initiated the PCCP Assessment Program in December 1996 to evaluate the condition of Metropolitan's PCCP lines and investigate inspection and refurbishment methods. As a result, Metropolitan has identified and made repairs to several sections of PCCP. The costs for these repairs through June 2015 were $72.8 million. Rather than continue to make spot repairs to pipe segments, Metropolitan has initiated a long-term capital program to rehabilitate approximately 100 miles of PCCP in five pipelines. This rehabilitation, which is currently planned to consist of relining the pipelines with a steel liner, will be performed in stages to minimize delivery impacts to customers. The first PCCP line planned for relining is the Second Lower Feeder. Approximately 30 miles of this line are constructed of PCCP, with diameters ranging from 78 to 84 inches. This effort is anticipated to take 8 to 10 years to complete at a cost of approximately $500 million. Final design is currently underway. Design for rehabilitation of the remaining four pipelines will be initiated over the next several years. The estimated cost to reline all 100 miles of PCCP is approximately $2.6 billion.

Distribution System – Refurbishments and Improvements. In addition to the long-term program to rehabilitate Metropolitan's PCCP lines, several other components of the distribution system are being refurbished and/or improved. Past and ongoing projects to ensure the reliability of the distribution system, primarily due to age, include multiple replacements or refurbishments of isolation and control valves and gates, refurbishment to pressure control and hydroelectric power facilities, and various other upgrades totaling approximately $167.6 million through June 2015. The currently projected cost estimate for the prior and planned refurbishment or replacement projects is $600 million. For fiscal years 2014-15 and 2015-16, budgeted aggregate capital expenditures for improvements on the distribution system, other than PCCP rehabilitation, are $53.4 million.

Also, as a result of the current statewide drought, Metropolitan initiated a project to enable reverse-flow through a series of existing pipelines to deliver water stored in Diamond Valley Lake to Metropolitan's Henry J. Mills Treatment Plant, which has historically received only raw water from DWR's State Water Project. Construction contracts were awarded in June and August 2014 to complete this effort. The total estimated cost for this project was approximately $37 million. The majority of the work to allow reverse-flow deliveries from Diamond Valley Lake was completed in April 2015. Costs through April 2015 were approximately $31.6 million.

METROPOLITAN REVENUES

General

Until water deliveries began in 1941, Metropolitan's activities were, by necessity, supported entirely through the collection of *ad valorem* property taxes. Since the mid-1980s, water sales revenues have provided approximately 75 to 85 percent of total revenues and *ad valorem* property taxes have accounted for about 10 percent of revenues, declining to six percent of revenues in fiscal year 2014-15. See "— Revenue Allocation Policy and Tax Revenues" below. The remaining revenues have been derived principally from the sale of hydroelectric power, interest on investments and additional revenue sources (water standby charges and availability of service charges) beginning in 1993. *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the water revenue bonds issued by Metropolitan.

Generally, Metropolitan has constitutional and statutory authority, and voter authorization, to levy *ad valorem* property taxes to pay its outstanding general obligation bonds and to satisfy its State Water Contract obligations. From fiscal year 1990-91 through 2012-13, *ad valorem* taxes were applied solely to pay annual debt service on Metropolitan's general obligation bonds and a small portion of State Water Contract obligations, pursuant to requirements in the Act that limit property tax collections to the amount necessary to pay annual debt service on Metropolitan's general obligation bonds plus the portion of its State Water Contract payment obligation outstanding as of 1990-91 attributable to the debt service on State general obligation bonds for facilities benefitting Metropolitan. Under this requirement, Metropolitan's *ad valorem* property tax revenue gradually decreases as the bonds are retired. However, the Act permits Metropolitan to set aside the prescribed reductions in the tax rate if the Board, following a public hearing with 10 days' prior written notice to the Speaker of the California Assembly and the President pro Tempore of the Senate, finds that revenue in excess of the restriction is "essential to the fiscal integrity of the district." On June 11, 2013, following such public hearing, the Board adopted a resolution finding that maintaining the *ad valorem* tax rate for fiscal year 2013-14 at the fiscal year 2012-13 tax rate was essential to the fiscal integrity of Metropolitan and suspending the tax limit clause in the Act. On August 19, 2014 and on August 18, 2015, following the required hearing and notice, the Board adopted a resolution finding that continuing the *ad valorem* tax rate at the rate levied for fiscal year 2013-14 and 2014-15, respectively, was essential to the fiscal integrity of Metropolitan and suspending the tax limit clause in the Act. Factors considered by the Board included current and future State Water Contract payment obligations and the proper mechanisms for funding them, the appropriate mix of property taxes and water rates and charges to enhance Metropolitan's fiscal stability and a fair distribution of costs across Metropolitan's service area. On August 20, 2013, August 19, 2014, and August 18, 2015, the Board adopted resolutions levying taxes for fiscal years 2013-14, 2014-15, and 2015-16, respectively, at the tax rate levied for fiscal year 2012-13 (0.0035 percent of assessed valuation, excluding annexation levies).

The basic rate for untreated water for domestic and municipal uses is $593 per acre-foot for Tier 1 water, effective January 1, 2014. This rate decreased to $582 effective January 1, 2015 and will increase to $594 effective January 1, 2016. See "—Rate Structure" and "—Water Rates by Water Category" below. The *ad valorem* tax rate for Metropolitan purposes has gradually been reduced from a peak equivalent rate of 0.1250 percent of full assessed valuation in fiscal year 1945-46 to 0.0035 percent of full assessed valuation for fiscal year 2015-16. The rates charged by Metropolitan represent the wholesale cost of Metropolitan water to its member agencies, and not the cost of water to the ultimate consumer. Metropolitan does not exercise control over the rates charged by its member agencies or their subagencies to their customers.

Summary of Receipts by Source

The following table sets forth Metropolitan's sources of receipts for the five fiscal years ended June 30, 2015. The table provides cash basis information, which is unaudited. Audited financial statements for the fiscal years ended June 30, 2015 and June 30, 2014 are provided in Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMPER 30, 2015 AND 2014 (UNAUDITED)."

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

	2011	2012	2013	2014	2015
Water Sales[(2)]	$995.6	$1,062.5	$1,250.9	$1,455.3	$1,448.7
Net Tax Collections[(3)]	88.0	90.1	96.5	98.4	103.0
Additional Revenue Sources[(4)]	153.5	167.1	174.2	179.8	200.1
Interest on Investments	18.9	17.8	11.7	14.8	17.0
Hydroelectric Power Sales	22.1	31.0	26.3	15.2	8.3
Other Collections & Trust Funds[(5)]	61.0	53.6	19.9	20.6	85.0
Total Receipts	$1,339.1	$1,422.1	$1,579.5	$1,784.1	$1,862.1

Source: Metropolitan.

(1) Does not include any proceeds from the sale of bonded indebtedness.
(2) Gross receipts in each year are for sales in the twelve months ended April 30 of such year. Water sales revenues include revenues from water wheeling and exchanges. See "METROPOLITAN REVENUES—Wheeling and Exchange Charges" in this Appendix A. Includes $25.7 million in fiscal year 2010-11 from the Calleguas Municipal Water District related to termination of the Las Posas water storage program.
(3) *Ad valorem* taxes levied by Metropolitan are applied solely to the payment of outstanding general obligation bonds of Metropolitan and to State Water Contract obligations.
(4) Includes receipts derived from water standby charges, readiness-to-serve, and capacity charges. See "—Rate Structure" and "—Additional Revenue Components" below.
(5) In fiscal year 2010-11 includes $10.8 million reimbursement from State Proposition 13 bond funds and $28.2 million from the termination of the Las Posas water storage program. In fiscal year 2011-12, includes $27.5 million from CVWD for delivery of 105,000 acre-feet under an exchange agreement between Metropolitan and CVWD. In fiscal year 2014-15, includes the transfer of $78.1 million from the Water Management Fund, which funded a like amount of water conservation and water purchase expenditures. See the table entitled "Summary of Expenditures" in "METROPOLITAN EXPENDITURES—General" in this Appendix A.

Revenue Allocation Policy and Tax Revenues

The Board determines the water revenue requirement for each fiscal year after first projecting the *ad valorem* tax levy for that year. The tax levy for any year is subject to limits imposed by the State Constitution, the Act and Board policy and to the requirement under the State Water Contract that in the event that Metropolitan fails or is unable to raise sufficient funds by other means, Metropolitan must levy upon all property within its boundaries not exempt from taxation a tax or assessment sufficient to provide for all payments under the State Water Contract. See "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A. From fiscal year 1990-91 through 2012-13, and pursuant to statute, the tax levy was set to not exceed the amount needed to pay debt service on Metropolitan's general obligation bonds and to satisfy a portion of Metropolitan's State Water Contract obligation. However, Metropolitan has authority to impose a greater tax levy to pay debt service on Metropolitan's general obligation bonds and to satisfy Metropolitan's State Water Contract obligations in full if, following a public hearing, the Board finds that such revenue is essential to its fiscal integrity. On June 11, 2013, August 19, 2014, and August 17, 2015, the Board suspended the tax limit clause in the Act and, for fiscal years 2013-14, 2014-15, and 2015-16, maintained the fiscal year 2012-13 *ad valorem* tax rate. See "METROPOLITAN REVENUES—General" above. Any deficiency between tax levy receipts and Metropolitan's share of debt service obligations on general obligation bonded debt issued by the State is expected to be paid from Operating Revenues, as defined in the Master Resolution.

Water Sales Revenues

Authority. Water rates are established by the Board and are not subject to regulation or approval by the Public Utilities Commission of California or by any other local, State or federal agency. In accordance with the Act, water rates must be uniform for like classes of service. Metropolitan has provided three classes of water service: (1) full service; (2) replenishment (discontinued effective December 31, 2012); and (3) interim agricultural (discontinued effective December 31, 2012). See "—Classes of Water Service" below.

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

Payment Procedure. Water is delivered to the member agencies on demand and is metered at the point of delivery. Member agencies are billed monthly and a late charge of one percent of the delinquent payment is assessed for a payment that is delinquent for no more than five business days. A late charge of two percent of the amount of the delinquent payment is charged for a payment that is delinquent for more than five business days for each month or portion of a month that the payment remains delinquent. Metropolitan has the authority to suspend service to any member agency delinquent for more than 30 days. Delinquencies have been rare; in such instances late charges have been collected. No service has been suspended because of delinquencies.

Water Sales. The following table sets forth the acre-feet of water sold and water sales (including sales from water wheeling and exchanges) for the five fiscal years ended June 30, 2015. Water sales revenues of Metropolitan for the two fiscal years ended June 30, 2015 and June 30, 2014, respectively, on an accrual basis, are shown in Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMPER 30, 2015 AND 2014 (UNAUDITED)."

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

Year	Acre-Feet[1] Sold	Water Sales[4] (in millions)	Dollars Per Acre Foot[5]	Average Dollars Per 1,000 Gallons
2011[2]	1,632,277	$995.6	$610	$1.87
2012 [3]	1,676,855	1,062.5	634	1.94
2013	1,856,685	1,282.5	691	2.12
2014	2,043,720	1,484.6	726	2.23
2015	1,905,502	1,383.0	726	2.23

Source: Metropolitan.

(1) Year ended April 30 for fiscal years 2010-11 and 2011-12, water sales recorded on a cash-basis. Beginning fiscal year 2012-13, water sales recorded on an accrual basis, with water sales for the fiscal year ended June 30.
(2) Includes the sale of 34,519 acre-feet and the receipt of $25.7 million from the Calleguas Municipal Water District related to termination of the Las Posas water storage program.
(3) Includes 225,000 acre-feet of replenishment sales.
(4) Water Sales in fiscal years 2010-11 and 2011-12 are recorded on a cash basis for sales in the twelve months ended April 30 of such year, with rates and charges invoiced in May and payable by the last business day of June of each year. Water sales for fiscal years 2012-13 thru 2014-15 are recorded on a modified accrual basis for sales in the twelve months ended June 30 of such year, with rates and charges recorded as revenues in the same months as invoiced. Includes revenues from water wheeling and exchanges. See “METROPOLITAN REVENUES—Wheeling and Exchange Charges” in this Appendix A.
(5) Gross water sales divided by acre-feet sold. An acre-foot is approximately 326,000 gallons. See table entitled “SUMMARY OF WATER RATES” under “-Water Rates by Water Category” below for a description of water rates and classes of service.

Rate Structure

The following rates and charges are elements of Metropolitan’s rate structure for full service water deliveries:

Tier 1 and Tier 2 Water Supply Rates. The Tier 1 and Tier 2 Water Supply Rates are designed to recover Metropolitan’s water supply costs. The Tier 2 Supply Rate is designed to reflect Metropolitan’s costs of acquiring new supplies. Member agencies are charged the Tier 1 or Tier 2 Water Supply Rate for water purchases, as described under “–Member Agency Purchase Orders” below.

System Access Rate. The System Access Rate is intended to recover a portion of the costs associated with the conveyance and distribution system, including capital, operating and maintenance costs. All users (including member agencies and third-party entities wheeling or exchanging water; see “—Wheeling and Exchange Charges” below) of the Metropolitan system pay the System Access Rate.

Water Stewardship Rate. The Water Stewardship Rate is charged on a dollar per acre-foot basis to collect revenues to support Metropolitan’s financial commitment to conservation, water recycling, groundwater recovery and other demand management programs approved by the Board. The Water Stewardship Rate is charged for every acre-foot of water conveyed by Metropolitan because all users of Metropolitan’s system benefit from the system capacity made available by investments in demand management programs.

System Power Rate. The System Power Rate is charged on a dollar per acre-foot basis to recover the cost of power necessary to pump water from the State Water Project and Colorado River through the conveyance and distribution system for Metropolitan’s member agencies. The System Power Rate is charged for all Metropolitan supplies. Entities wheeling non-Metropolitan water supplies will pay the actual cost of power to convey water on the State Water Project, the CRA or the Metropolitan distribution system, whichever is applicable.

Treatment Surcharge. Metropolitan charges a treatment surcharge on a dollar per acre-foot basis for treated deliveries. The treatment surcharge is set to recover the cost of providing treated water service, including capital and operating cost.

Delta Supply Surcharge. On April 13, 2010, Metropolitan's Board adopted a Delta Supply Surcharge of $51 and $58 per acre-foot, effective January 1, 2011 and January 1, 2012, respectively, and applicable to all Tier 1, Interim Agricultural Water Program and Replenishment water rates. The Delta Supply Surcharge was designed to recover the additional supply costs Metropolitan faces as a result of pumping restrictions associated with the United States Fish and Wildlife Service biological opinion on Delta smelt and other actions to protect endangered fish species. The Delta Surcharge was intended to remain in effect until a long-term solution for the Bay-Delta is achieved. Metropolitan anticipated that the Delta Supply Surcharge would be reduced or suspended as interim Delta improvements ease pumping restrictions, resulting in lower costs for additional supplies. On April 10, 2012, the Board suspended the Delta Supply Surcharge, effective January 1, 2013.

The amount of each of these rates since September 1, 2009, is shown in the table entitled "SUMMARY OF WATER RATES" under "—Water Rates by Water Category" below.

Litigation Challenging Rate Structure

SDCWA filed *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.* on June 11, 2010. The complaint alleges that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012, misallocate State Water Contract costs to the System Access Rate and the System Power Rate, and thus to charges for transportation of water, and that this results in an overcharge to SDCWA by at least $24.5 million per year. The complaint alleges that all State Water Project costs should be allocated instead to Metropolitan's Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It states additionally that Metropolitan will overcharge SDCWA by another $5.4 million per year by including the Water Stewardship Rate in transportation charges. Eight of Metropolitan's member agencies (the Cities of Glendale, Los Angeles and Torrance, Municipal Water District of Orange County and Foothill, Las Virgenes, Three Valleys and West Basin Municipal Water Districts) answered the complaint in support of Metropolitan. IID joined the litigation in support of SDCWA's challenge to Metropolitan's charges for transportation of water, but withdrew and dismissed all claims against Metropolitan with prejudice on October 30, 2013.

The complaint requested a court order invalidating the rates and charges adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with State Water Project supplies and the Water Stewardship Rate to water supply charges and not to transportation charges. Rates in effect in prior years are not challenged in this lawsuit. Metropolitan contends that its rates are reasonable, equitably apportioned among its member agencies and lawful, and were adopted under a valid rate structure and cost of service approach developed in a multi-year collaborative process with its member agencies that has been in place since 2002. Nevertheless, to the extent that a court invalidates Metropolitan's adopted rates and charges, Metropolitan will be obligated to reconsider and modify rates and charges to comply with any court rulings related to Metropolitan's rates. While components of the rate structure and costs may change as a result of any such rulings, Metropolitan expects that aggregate rates and charges would still recover Metropolitan's cost of service. As such, revenues would not be affected. If Metropolitan's rates are revised in the manner proposed by SDCWA in the complaint, other member agencies may pay higher rates unless other actions are taken by the Board.

SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims are for breach of the water exchange agreement between Metropolitan and SDCWA (described herein under "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct—

Sale of Water by the Imperial Irrigation District to San Diego County Water Authority") based on allegedly illegal calculation of rates; improper exclusion of SDCWA's payments under this exchange agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies (see "—Preferential Rights" below); and illegality of the "rate structure integrity" provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. Such "rate structure integrity" provision permits 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 contains additional allegations but no new causes of action.

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. See "–Rate Structure" above and "–Water Rates by Water Category" below for a description of Metropolitan's water rate structure and the rates and charges adopted on April 10, 2012. The complaint contains allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting that Metropolitan's rates, adopted in April 2012, violate Proposition 26. See "–California Ballot Initiatives" below for a description of Proposition 26. Metropolitan contends that its rates adopted on April 10, 2012 are reasonable, equitably apportioned among its member agencies and lawful and were adopted under a valid rate structure and cost of service approach. Ten of Metropolitan's member agencies (the eight member agency parties to SDCWA's first lawsuit, Eastern Municipal Water District and Western Municipal Water District of Riverside County) answered the complaint in support of Metropolitan and IID joined the litigation in support of SDCWA. Subsequently, IID dismissed all claims with prejudice in this second case too, and the City of Glendale withdrew from both cases.

SDCWA filed a Third Amended Petition for Writ of Mandate and Complaint on January 23, 2013, to add new allegations that Metropolitan's rates adopted in April 2010 did not meet the requirements of Proposition 26, approved by California voters in November 2010. The court granted Metropolitan's motion to strike allegations relating to Proposition 26 on March 29, 2013, expressly ruling that SDCWA may not allege a violation of Proposition 26 in its challenge to the rates adopted in April 2010. This ruling does not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations. On December 4, 2013, the court granted Metropolitan's motion for summary adjudication of the cause of action alleging illegality of the "rate structure integrity" provision in conservation and local resources incentive agreements, dismissing this claim in the first lawsuit.

Trial of the first phase of both lawsuits before the Superior Court of California, County of San Francisco (Case Nos. CPF-10-510830 and CPF-12-512466) concluded January 23, 2014. This phase concerned the challenges to Metropolitan's rates. On April 24, 2014, the court issued its "Statement of Decision on Rate Setting Challenges," determining that SDCWA prevailed on two of its claims and that Metropolitan prevailed on the third claim. The court found that there was not sufficient evidence to support Metropolitan's inclusion in its transportation rates, and hence in its wheeling rate, of 100 percent of (1) payments it makes to the California Department of Water Resources for the State Water Project, or (2) the costs incurred by Metropolitan for conservation and local water supply development programs recovered through the Water Stewardship Rate. The trial court decision stated that the System Access Rate, System Power Rate, Water Stewardship Rate and wheeling rate violate specified statutes and the common law and such rates effective in 2013 and 2014 violate Proposition 26. The court found that SDCWA failed to prove its "dry-year peaking" claim that Metropolitan's rates do not adequately account for variations in member agency purchases.

SDCWA's claims asserting breach of the exchange agreement and miscalculation of preferential rights were tried in a second phase of the case which concluded April 30, 2015. On August 28, 2015, the trial court issued a final statement of decision for the second phase. The decision finds in favor of SDCWA on both claims and that SDCWA is entitled to damages in the amount of $188,295,602 plus interest. On October 9, 2015 and October 30, 2015, the trial court granted SDCWA's motion for prejudgment interest at the statutory rate of 10 percent on these damages.

On November 18, 2015, the court issued the Final Judgment and a Peremptory Writ of Mandate for both phases of the 2010 and 2012 lawsuits, awarding SDCWA damages in the amount of $188,295,602, plus prejudgment interest of $46,637,180, for a total judgment of $234,932,782. On November 19, 2015, Metropolitan filed a Notice of Appeal of the Judgment and Writ in each case. The Judgment and the Writ will be stayed while the appeal is pending. Post-judgment interest will accrue on the damages and prejudgment interest awards at the rate of seven percent. Metropolitan is unable to assess at this time the likelihood of success of this litigation, any possible appeal or any future claims.

Due to SDCWA's litigation challenging Metropolitan's rates, as of October 31, 2015, Metropolitan held $220.6 million in its financial reserves pursuant to the exchange agreement between Metropolitan and SDCWA. Of that amount, $191.7 million is associated with exchange water deliveries from January 2011 through December 2014, and $28.9 million is associated with exchange water deliveries since January 2015. See "—Financial Reserve Policy" below. Amounts held pursuant to the exchange agreement will continue to accumulate based on the quantities of exchange water that Metropolitan provides to SDCWA and the amount of charges disputed by SDCWA. In conformance with the exchange agreement, the amounts held are SDCWA's payments under the exchange agreement that are in dispute and interest earned thereon, which is based on Metropolitan's investment portfolio. The amounts held do not include the statutory prejudgment interest award and, after judgment is entered, will not include statutory post-judgment interest, neither of which the exchange agreement requires to be held.

In May 2014, SDCWA filed a new lawsuit asserting essentially the same rate claims and breach of contract claim in connection with the Board's April 2014 rate adoption. Metropolitan filed its answer on June 30, 2014. On February 9, 2015, pursuant to stipulation by the parties, the court ordered that the case be stayed. On November 20, 2015, SDCWA filed a motion to partially lift the stay. A hearing on the motion is scheduled for December 21, 2015. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

Member Agency Purchase Orders

Member Agency purchase orders are voluntary agreements that determine the amount of water that a member agency can purchase at the Tier 1 Supply Rate. On November 18, 2014, the Board approved the terms for purchase orders with a 10-year term to be effective from January 1, 2015 through December 31, 2024. Twenty-one purchase orders were executed. In consideration of executing a purchase order, each member agency whose purchase order is in effect is allowed to purchase up to 90 percent of its base amount at the Tier 1 Supply Rate in any fiscal year during the term of the purchase order. Member agencies chose a base amount of either (1) the member agency's highest fiscal year purchases during the 13-year period of fiscal year 1990 through fiscal year 2002, or (2) the highest year purchases in the most recent 12-year period of fiscal year 2003 through fiscal year 2014. Amounts purchased by such agencies over the applicable base amount will be priced at the Tier 2 Supply Rate. See "—Rate Structure—*Tier 1 and Tier 2 Water Supply Rates*" above. Member agencies that accrue a cumulative Tier 2 obligation by virtue of exceeding their Tier 1 maximum at the end of year five of the purchase order will pay their Tier 2 obligation annually. Otherwise, any obligation to pay the Tier 2 Supply Rate will be calculated over the ten-year period, consistent with the calculation of any purchase order commitment obligation. Member agencies that do not have purchase orders in effect are subject to Tier 2 Supply Rates for amounts exceeding 60 percent of their base amount (equal to the member agency's highest fiscal year demand between 1989-90 and 2001-02) annually.

Under each purchase order, a member agency agrees to purchase, over the term of the contract, an amount of water equal to at least 60 percent of the chosen base period demand multiplied by the number of years in the contract. Member agencies are allowed to vary their purchases from year to year, but a member agency will be obligated to pay for the full amount committed under the purchase order, even if it does not take its full purchase order commitment by the end of the contract period.

Classes of Water Service

Full Service Water. Full service water service, formerly known as non-interruptible water service, includes water sold for domestic and municipal uses. Full service treated water rates are the sum of the applicable supply rate, system access rate, water stewardship rate, system power rate and treatment surcharge. Full service untreated water rates are the sum of the applicable supply rate, system access rate, water stewardship rate and system power rate. Full service water sales are the major component of Metropolitan water sales.

Interim Agricultural Water Program. This program provided a discounted rate for agricultural water users that, pursuant to the Act, were permitted to receive only surplus water not needed for domestic or municipal purposes. Metropolitan delivered approximately 40,000 acre-feet of agricultural water under this program in fiscal year 2009-10, approximately 21,000 acre-feet in fiscal year 2010-11 and approximately 29,000 acre-feet in fiscal year 2011-12. On October 14, 2008, the Board approved annual reductions of the Interim Agricultural Water Program discount beginning January 1, 2010 and discontinuance of the program when the discount reached zero on January 1, 2013.

Replenishment. Under the Replenishment Service Program, water was sold at a discounted rate to member agencies, subject to interruption upon notice by Metropolitan. The program allowed Metropolitan to deliver surplus imported water to local groundwater basins and surface storage facilities when supplies were available, with the intent that member agencies could reduce imported water deliveries from Metropolitan during periods of high demand, emergencies or times of shortage. See table entitled "SUMMARY OF WATER RATES" below.

On December 11, 2012, Metropolitan's Board eliminated the Replenishment Service Program and approved adjustments to increase member agency Tier 1 limits to reflect the historical demand for water used for long-term groundwater and surface storage replenishment. See "—Rate Structure—*Tier 1 and Tier 2 Water Supply Rates*" above. Water for groundwater replenishment now is priced at applicable full service rates. This adjustment provides additional Tier 1 limits for member agencies that historically purchased water for long-term replenishment purposes and limits their exposure to the higher Tier 2 rates.

Water Rates by Water Category

The following table sets forth Metropolitan's water rates by category beginning January 1, 2010. See also "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES—Water Sales Revenues" in this Appendix A. In addition to the base rates for untreated water sold in the different classes of service, the columns labeled "Treated" include the surcharge that Metropolitan charges for water treated at its water treatment plants. See "—Rate Structure" and "—Classes of Water Service" above for a description of current rates. See "—Litigation Challenging Rate Structure" above for a description of litigation challenging Metropolitan's water rates.

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SUMMARY OF WATER RATES
(Dollars per Acre-Foot)

	SUPPLY RATE		SYSTEM ACCESS RATE	WATER STEWARDSHIP RATE	SYSTEM POWER RATE	TREATMENT SURCHARGE
	Tier 1	Tier 2				
January 1, 2010	$170[1]	$280	$154	$41	$119	$217
January 1, 2011	$155[2]	$280	$204	$41	$127	$217
January 1, 2012	$164[2]	$290	$217	$43	$136	$234
January 1, 2013	$140	$290	$223	$41	$189	$254
January 1, 2014	$148	$290	$243	$41	$161	$297
January 1, 2015*	$158	$290	$257	$41	$126	$341
January 1, 2016*	$156	$290	$259	$41	$138	$348

	FULL SERVICE TREATED[3]		FULL SERVICE UNTREATED[4]		INTERIM AGRICULTURAL PROGRAM		REPLENISHMENT RATE	
	Tier 1	Tier 2	Tier 1	Tier 2	Treated	Untreated	Treated	Untreated
January 1, 2010	$701	$811	$484	$594	$615	$416	$558	$366
January 1, 2011	$744	$869	$527	$652	$687	$482	$601	$409
January 1, 2012	$794	$920	$560	$686	$765	$537	$651	$442
January 1, 2013	$847	$997	$593	$743	**	**	**	**
January 1, 2014	$890	$1,032	$593	$735	**	**	**	**
January 1, 2015*	$923	$1,055	$582	$714	**	**	**	**
January 1, 2016*	$942	$1,076	$594	$728	**	**	**	**

Source: Metropolitan.

* Rates effective January 1, 2015 and January 1, 2016 were adopted by Metropolitan's Board on April 8, 2014.
** The Interim Agricultural Water Program and Replenishment Service Program were discontinued after 2012.
(1) Includes $69 per acre-foot Delta Supply Surcharge, which replaced Water Supply Surcharge.
(2) Includes $51 and $58 per acre-foot Delta Supply Surcharge for January 1, 2011 and January 1, 2012, respectively.
(3) Full service treated water rates are the sum of the applicable Supply Rate, System Access Rate, Water Stewardship Rate, System Power Rate and Treatment Surcharge.
(4) Full service untreated water rates are the sum of the applicable Supply Rate, System Access Rate, Water Stewardship Rate and System Power Rate.

Additional Revenue Components

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

Readiness-to-Serve Charge. This charge is designed to recover the portion of capital expenditures for infrastructure projects needed to provide standby service and peak conveyance needs. The Readiness-to-Serve Charge ("RTS") is allocated to each member agency in proportion to the rolling ten-year share of firm deliveries through Metropolitan's system. The RTS generated $144.0 million in fiscal year 2012-13, $154.0 million in fiscal year 2013-14, and $162.0 million in 2014-15. Based on the adopted rates and charges, the RTS is projected to generate $156.1 million in fiscal year 2015-16.

Water Standby Charges. The Board is authorized to impose water standby or availability of service charges. In May 1993, the Board imposed a water standby charge for fiscal year 1993-94 ranging from $6.94 to $15 for each acre or parcel less than an acre within Metropolitan's service area, subject to specified exempt categories. Water standby charges have been continued at the same rate in each year since 1993-94. Standby charges are assessments under the terms of Proposition 218, a State constitutional ballot initiative approved by the voters on November 5, 1996. See "—California Ballot Initiatives" below.

Member agencies have the option to utilize Metropolitan's existing standby charge authority as a means to collect all or a portion of their RTS charge. Standby charge collections are credited against the member agencies' RTS charges. See "*—Readiness-to-Serve Charge*" above. Twenty-two member agencies collect their RTS charges through standby charges. For fiscal years 2012-13, 2013-14, and 2014-15, RTS charges collected by means of such standby charges were $41.6 million, $41.7 million, and $41.7 million, respectively.

Capacity Charge. The Capacity Charge is a fixed charge intended to recover the cost of providing peak capacity within the distribution system. It is levied on the maximum summer day demand placed on Metropolitan's system between May 1 and September 30 for the three-calendar-year period ended December 31 two years prior to the date of the capacity charge. Effective January 1, 2014, the Capacity Charge was $8,600 per cubic feet per second. The adopted Capacity Charge was $11,100 per cubic feet per second on January 1, 2015, and will be $10,900 per cubic feet per second on January 1, 2016.

Financial Reserve Policy

Metropolitan's reserve policy currently provides for a minimum unrestricted reserve balance at June 30 of each year that is based on probability studies of the wet periods that affect Metropolitan's water sales. The policy establishes a minimum targeted unrestricted reserve level based on an 18-month revenue shortfall estimate and a target level based on an additional two years revenue shortfall estimate. Funds representing the minimum reserve level are held in the Revenue Remainder Fund, and any funds in excess of the minimum reserve level are held in the Water Rate Stabilization Fund. Metropolitan established the Water Rate Stabilization Fund for the principal purpose of maintaining stable and predictable water rates and charges. Funds above the target reserve level may be utilized for pay-as-you-go funding of capital expenditures, for the redemption, defeasance or purchase of outstanding bonds or for any lawful purpose of Metropolitan, as determined by the Board, provided that Metropolitan's fixed charge coverage ratio, which measures the total coverage of all fixed obligations (which includes all revenue bond debt service obligations, State Water Contract capital payments paid from current year operations and subordinate obligations) after payment of operating expenditures, is at or above 1.2 times. See "CAPITAL INVESTMENT PLAN—Capital Investment Plan Financing" in this Appendix A.

On May 26, 2015, Metropolitan's Board approved the use of $160 million of unrestricted reserves, above the target reserve level, for conservation incentives. In addition, $50 million from the Water Stewardship Fund and $140 million from the Water Management Fund funded conservation incentives. At June 30, 2015, unrestricted reserves, which consist of the Water Rate Stabilization Fund and the Revenue Remainder Fund, totaled $476 million on a modified accrual basis. As of June 30, 2015, the minimum reserve requirement was $205 million and the target reserve level was $482 million. Metropolitan's unrestricted reserves as of June 30, 2015 included $188 million held in Metropolitan's financial reserves pursuant to the exchange agreement between Metropolitan and SDCWA due to SDCWA's litigation challenging Metropolitan's rate structure.

On July 14, 2015, Metropolitan's Board approved $264 million to acquire various properties in Riverside and Imperial Counties, with $160 million funded from the Replacement and Refurbishment Fund and the remaining amount from unrestricted reserves. On September 22, 2015, Metropolitan's Board approved $44.4 million to pay SNWA to store 150,000 acre-feet of water with Metropolitan. This amount will be funded from unrestricted reserves. This water will be available to Metropolitan during 2015. When

SNWA requests the return of any of the stored water, SNWA will reimburse Metropolitan for an equivalent proportion of the $44.4 million, based on the amount of water returned plus inflation. See "METROPOLITAN'S WATER SUPPLY—*Interim Surplus Guidelines"* in this Appendix A.

As of October 31, 2015, Metropolitan held $220.6 million in its financial reserves pursuant to the exchange agreement between Metropolitan and SDCWA. Of that amount, $191.7 million is associated with exchange water deliveries from January 2011 through December 2014, and $28.9 million is associated with exchange water deliveries since January 2015. Amounts held pursuant to the exchange agreement will continue to accumulate based on the quantities of exchange water that Metropolitan provides to SDCWA and the amount of charges disputed by SDCWA. See "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*" and "METROPOLITAN REVENUES—Litigation Challenging Rate Structure" in this Appendix A. SDCWA has taken the position that the exchange agreement requires Metropolitan to hold such amounts in a restricted cash fund and not in unrestricted reserves. SDCWA sought to include this as a specific requirement by the court in the trial court judgment, which the court rejected. The exchange agreement requires Metropolitan to maintain the amounts in a separate interest bearing account during the pendency of the dispute.

Metropolitan projects that its unrestricted reserves as of June 30, 2016 will be approximately $440 million, inclusive of amounts held pursuant to the exchange agreement between Metropolitan and SDCWA. 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 will obtain a reimbursement from expected bond proceeds and that the Board will not authorize the use of any additional amounts in the unrestricted reserves. Accordingly, the actual amount of unrestricted reserves as of June 30, 2016 may differ if these assumptions are not realized.

Wheeling and Exchange Charges

The process for the delivery of water not owned or controlled by Metropolitan is referred to as "wheeling." Under the current rate structure, wheeling parties pay the System Access Rate and Water Stewardship Rate, Treatment Surcharge (if applicable) and power costs for wheeling transactions. See "—Rate Structure" above. These payments are included in Net Operating Revenues. Wheeling and exchange revenues totaled $74.6 million during fiscal year 2012-13, $81.3 million in fiscal year 2013-14, and $78.8 million during fiscal year 2014-15. See "—Litigation Challenging Rate Structure" above for a description of litigation by the SDCWA and IID challenging Metropolitan's System Access Rate and Water Stewardship Rate.

Hydroelectric Power Recovery Revenues

Metropolitan has constructed 16 small hydroelectric plants on its distribution system. The plants are located in Los Angeles, Orange, Riverside and San Diego Counties at existing pressure control structures and other locations. The combined generating capacity of these plants is approximately 131 megawatts. The total capital cost of these 16 facilities is approximately $176.1 million. Since 2000, annual energy generation sales revenues have ranged between $8.5 million and nearly $29.6 million. Energy generation sales revenues were $14.6 million in fiscal year 2013-14 and $8.5 million in fiscal year 2014-15.

Principal Customers

All of Metropolitan's regular customers are member agencies. Total water sales to the member agencies accrued for the fiscal year ended June 30, 2015 were 1.91 million acre-feet, generating $1.38 billion in water sales revenues for such period. Metropolitan's ten largest water customers in the year ended June 30, 2015 are shown in the following table, on an accrual basis. On June 11, 2010, the SDCWA filed litigation challenging Metropolitan's rates. See "—Litigation Challenging Rate Structure" above.

TEN LARGEST WATER CUSTOMERS
Year Ended June 30, 2015
Accrual Basis (Dollars in Millions)

Agency	Water Sales Revenues[1]	Percent of Total	Water Sales in Acre-Feet[1]	Percent of Total
San Diego County Water Authority	$ 323.54	23.4%	540,140	28.3%
City of Los Angeles	236.88	17.1	355,368	18.7
MWD of Orange County	182.94	13.2	228,482	12.0
West Basin MWD	102.22	7.4	112,893	5.9
Calleguas MWD	87.86	6.4	97,103	5.1
Eastern MWD	71.87	5.2	89,737	4.7
Western MWD	55.63	4.0	68,386	3.6
Three Valleys MWD	46.65	3.4	58,053	3.0
City of Long Beach	41.69	3.0	46,045	2.4
Central Basin MWD	36.23	2.6	45,360	2.4
Total	$1,185.53	85.7%	1,641,567	86.2%
Total Water Sales Revenues	$ 1,382.90	**Total Acre-Feet**	1,905,425	

Source: Metropolitan.

(1) Includes wheeling and exchange water sales, revenues and deliveries. See "—Wheeling and Exchange Charges" above.

Preferential Rights

Section 135 of the Act gives each of Metropolitan's member agencies a preferential entitlement to purchase a portion of the water served by Metropolitan, based upon a ratio of all payments on tax assessments and otherwise, except purchases of water, made to Metropolitan by the member agency compared to total payments made by all member agencies on tax assessments and otherwise since Metropolitan was formed, except purchases of water. Historically, these rights have not been used in allocating Metropolitan's water. The California Court of Appeal has upheld Metropolitan's methodology for calculation of the respective member agencies' preferential rights under Section 135 of the Act. SDCWA's litigation challenging Metropolitan's water rates also challenges Metropolitan's exclusion of payments for exchange water from the calculation of SDCWA's preferential right. On August 28, 2015, the trial court ruled that SDCWA "is entitled to a judicial declaration (a) that Metropolitan's current methodology for calculating San Diego's preferential rights violates Section 135 of the Metropolitan Water District Act; and (b) directing Metropolitan to include San Diego's payments for the transportation of water under the Exchange Agreement in Metropolitan's calculation of San Diego's preferential rights." This ruling is subject to appeal. See "—Litigation Challenging Rate Structure" above.

California Ballot Initiatives

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

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

Article XIIIC extends the people's initiative power to reduce or repeal previously authorized local taxes, assessments fees and charges. This extension of the initiative power is not limited by the terms of Article XIIIC to fees imposed after November 6, 1996 or to property-related fees and charges and absent other authority could result in retroactive reduction in existing taxes, assessments or fees and charges.

Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of "tax" in Article XIIIC of the California Constitution to include levies, charges and exactions imposed by local governments, except for charges imposed for benefits or privileges or for services or products granted to the payor (and not provided to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation; fees for the use of local governmental property; fines and penalties imposed for violations of law; real property development fees; and assessments and property-related fees imposed under Article XIIID of the California Constitution. Taxes imposed by a special district such as Metropolitan are subject to approval by two-thirds of the voters voting on the ballot measure for authorization. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. Metropolitan believes its water rates and charges are not taxes under Proposition 26. 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 April 24, 2014, a trial court decision stated such rates, effective in 2013 and 2014, violate Proposition 26. The trial court's rulings, including the decision that specific rates violate certain laws, are subject to appeal. (See "–Litigation Challenging Rate Structure" above.)

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

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts established pursuant to Metropolitan's water revenue or general obligation bond resolutions are invested by the Treasurer in accordance with Metropolitan's Statement of Investment Policy. All Metropolitan funds available for investment are currently invested in United States Treasury and agency securities, commercial paper, negotiable certificates of deposit, banker's acceptances, corporate notes, municipal bonds, asset-backed, mortgage-backed securities and the California Local Agency Investment Fund ("LAIF"). The LAIF is a voluntary program created by statute as an investment alternative for California's local governments and special districts. LAIF permits such local agencies to participate in an investment portfolio, which invests billions of dollars, using the investment expertise of the State Treasurer's Office.

The Statement of Investment Policy provides that in managing Metropolitan's investments, the primary objective shall be to safeguard the principal of the invested funds. The secondary objective shall be to meet all liquidity requirements and the third objective shall be to achieve a return on the invested funds. Although the Statement of Investment Policy permits investments in some asset-backed securities, the portfolio does not include any of the special investment vehicles related to sub-prime mortgages. The Statement of Investment Policy allows Metropolitan to exceed the portfolio and single issuer limits for purchases of California local agency securities when purchasing Metropolitan tendered bonds in conjunction with its self-liquidity program. See "METROPOLITAN EXPENDITURES—Variable Rate and Swap Obligations" in this Appendix A. Metropolitan's current investments comply with the Statement of Investment Policy.

As of October 31, 2015, the total market value (cash-basis) of all Metropolitan funds was $1.05 billion, including bond reserves of $75.3 million. The market value of Metropolitan's investment portfolio is subject to market fluctuation and volatility and general economic conditions. In fiscal year 2014-15, Metropolitan's earnings on investments, including adjustments for gains and losses and premiums and discounts, including construction account and trust fund earnings, on a cash basis (unaudited) were $21.4 million. In fiscal year 2013-14, Metropolitan's earnings on investments, on a cash basis (unaudited) were $15.7 million. In fiscal year 2012-13, Metropolitan's earnings on investments, on a cash basis (unaudited) were $9.4 million. Over the three years ended October 31, 2015, the market value of the month-end balance of Metropolitan's investment portfolio (excluding bond reserve funds) averaged approximately $1.198 billion. The minimum month-end balance of Metropolitan's investment portfolio (excluding bond reserve funds) during such period was approximately $941.2 million on July 31, 2013. See Footnote 3 to Metropolitan's audited financial statements in Appendix B for additional information on the investment portfolio.

Metropolitan's regulations require that (1) the Treasurer provide an annual Statement of Investment Policy for approval by Metropolitan's Board, (2) the Treasurer provide a monthly investment report to the Board and the General Manager showing by fund the description, maturity date, yield, par, cost and current market value of each security, and (3) the General Counsel review as to eligibility the securities invested in by the Treasurer for that month and report his or her determinations to the Board. The Board approved the Statement of Investment Policy for fiscal year 2015-16 on June 9, 2015.

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

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

The Statement of Investment Policy requires that investments have a minimum credit rating of "A1/P1/F1" for short-term securities and "A" for longer-term securities at the time of purchase. If immediate liquidation of a security downgraded below these levels is not in the best interests of Metropolitan, the Treasurer or investment manager, in consultation with an ad hoc committee made up of the Chairman of the

Board, the Chairman of the Finance and Insurance Committee and the General Manager, and with the concurrence of the General Counsel, may dispose of the security in an orderly and prudent manner considering the circumstances, under terms and conditions approved by a majority of the members of such ad hoc committee. The Treasurer is required to include a description of any securities that have been downgraded below investment grade and the status of their disposition in the Treasurer's monthly report.

The Statement of Investment Policy also limits the amount of securities that can be purchased by category, as well as by issuer, and prohibits investments that can result in zero interest income. Metropolitan's securities are settled on a delivery versus payment basis and are held by an independent third-party custodian. See Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMPER 30, 2015 AND 2014 (UNAUDITED)" for a description of Metropolitan's investments at September 30, 2015.

Metropolitan retains two outside investment firms to manage the long-term portion of Metropolitan's portfolio. The outside managers are required to adhere to Metropolitan's Statement of Investment Policy. As of October 31, 2015, such managers were managing approximately $339.1 million in investments on behalf of Metropolitan. Metropolitan's Statement of Investment Policy may be changed at any time by the Board (subject to State law provisions relating to authorized investments). There can be no assurance that the State law and/or the Statement of Investment Policy will not be amended in the future to allow for investments that are currently not permitted under State law or the Statement of Investment Policy, or that the objectives of Metropolitan with respect to investments or its investment holdings at any point in time will not change.

METROPOLITAN EXPENDITURES

General

The following table sets forth a summary of Metropolitan's expenditures, by major function, for the five years ended June 30, 2015. The table provides cash basis information, which is unaudited. Expenses of Metropolitan for the fiscal years ended June 30, 2014 and June 30, 2015, on an accrual basis, are shown in Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2015 AND JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMPER 30, 2015 AND 2014 (UNAUDITED)."

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

	2011	2012	2013	2014	2015
Operation and Maintenance Costs(1)	$ 430.8	$ 425.3	$ 413.6	$ 561.3	$ 640.6
Total State Water Project and Water Transfers(2)	593.4	535.4	531.1	472.5	519.7
Total Debt Service(3)	306.7	323.0	326.9	372.0	291.0
Construction Disbursements from Revenues(4)	45.0	44.2	54.7	89.3	210.2
Other(5)	2.4	2.8	6.2	6.3	5.7
Total Disbursements (net of reimbursements) (6)	$1,378.3	$1,330.7	$1,332.5	$1,501.4	$1,667.2

Source: Metropolitan.

(1) Includes inventories, undistributed payroll, local resource programs, conservation programs and CRA power. See the table headed "Summary of Receipts by Source" under "METROPOLITAN REVENUES" in this Appendix A. For fiscal year 2015, includes $48.9 million of conservation projects funded from transfers from the Water Management Fund. See "METROPOLITAN'S REVENUES— Summary of Receipts by Source", in this Appendix A. *(Footnotes continued on next page)*

(Footnotes continued from prior page)

(2) Includes both operating and capital expense portions. See "METROPOLITAN'S WATER SUPPLY—Water Transfer, Storage and Exchange Programs" and "POWER SOURCES AND COSTS" in this Appendix A. For fiscal year 2015, includes $29.3 million of water purchases funded from transfers from the Water Management Fund. See "METROPOLITAN'S REVENUES—Summary of Receipts by Source", in this Appendix A.

(3) Net of Build America Bond reimbursement of $10.4 million, $13.3 million, $12.7 million, $12.3 million, and $12.3 million, in fiscal years 2011 thru 2015, respectively. See "METROPOLITAN EXPENDITURES—"Build America Bonds".

(4) At the discretion of the Board, in any given year, Metropolitan may increase or decrease funding available for construction disbursements to be paid from revenues. Does not include expenditures of bond proceeds.

(5) Includes operating equipment and arbitrage rebate.

(6) Disbursements exceeded revenues in the fiscal year ended June 30, 2011. See "METROPOLITAN REVENUES—Financial Reserve Policy" in this Appendix A.

Revenue Bond Indebtedness

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

Name of Issue	Principal Outstanding
Water Revenue Refunding Bonds, 1993 Series A	$86,540,000
Water Revenue Bonds, 2000 Authorization, Series B-3[1]	88,800,000
Water Revenue Bonds, 2005 Authorization, Series C	175,000,000
Water Revenue Refunding Bonds, 2006 Series B	24,055,000
Water Revenue Bonds, 2006 Authorization, Series A	389,235,000
Water Revenue Refunding Bonds, 2008 Series A-2[1]	62,465,000
Water Revenue Refunding Bonds, 2008 Series B	126,980,000
Water Revenue Refunding Bonds, 2008 Series C	34,700,000
Water Revenue Bonds, 2008 Authorization, Series A	183,525,000
Water Revenue Refunding Bonds, 2009 Series A-2[1]	104,180,000
Water Revenue Refunding Bonds, 2009 Series B	106,690,000
Water Revenue Refunding Bonds, 2009 Series C	91,165,000
Water Revenue Bonds, 2008 Authorization, Series B	12,735,000
Water Revenue Bonds, 2008 Authorization, Series C[2]	78,385,000
Water Revenue Bonds, 2008 Authorization, Series D[2]	250,000,000
Water Revenue Refunding Bonds, 2009 Series D	58,860,000
Water Revenue Refunding Bonds, 2009 Series E	15,590,000
Water Revenue Bonds, 2010 Authorization, Series A[2]	250,000,000
Water Revenue Refunding Bonds, 2010 Series B	79,330,000
Water Revenue Refunding Bonds, 2011 Series A1-A4[1]	228,875,000
Water Revenue Refunding Bonds, 2011 Series B	35,760,000
Water Revenue Refunding Bonds, 2011 Series C	147,935,000
Water Revenue Refunding Bonds, 2012 Series A	181,180,000
Water Revenue Refunding Bonds, 2012 Series B-1 and B-2[1]	98,585,000
Water Revenue Refunding Bonds, 2012 Series C	190,600,000
Water Revenue Refunding Bonds, 2012 Series D	605,000
Water Revenue Refunding Bonds, 2012 Series E-3	31,220,000
Water Revenue Refunding Bonds, 2012 Series F	59,335,000
Water Revenue Refunding Bonds, 2012 Series G	111,890,000
Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D[1]	87,445,000
Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E[1]	104,820,000
Water Revenue Refunding Bonds, 2014 Series A	95,935,000
Water Revenue Refunding Bonds, 2014 Series B	10,575,000
Water Revenue Refunding Bonds, 2014 Series C1-C3	30,335,000
Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D[1]	63,575,000
Water Revenue Refunding Bonds, 2014 Series E	86,060,000
Water Revenue Refunding Bonds, 2014 Series G1-G5	57,840,000
Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1and A-2[1]	188,900,000
Total	**$4,029,705,000**

Source: Metropolitan.

(1) Outstanding variable rate obligation.

(2) Designated as "Build America Bonds" pursuant to the American Recovery and Reinvestment Act of 2009.

Limitations on Additional Revenue Bonds

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

The laws governing Metropolitan's ability to issue water revenue bonds currently provide two additional limitations on indebtedness that may be incurred by Metropolitan. The Act provides for a limit on general obligation bonds, water revenue bonds and other evidences of indebtedness at 15 percent of the assessed value of all taxable property within Metropolitan's service area. As of November 1, 2015, outstanding general obligation bonds, water revenue bonds and other evidences of indebtedness in the amount of $4.15 billion represented approximately 0.17 percent of the fiscal year 2015-16 taxable assessed valuation of $2,451 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, 2015 were $6.88 billion. The aggregate amount of revenue bonds outstanding as of November 1, 2015 was $4.03 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, 2015 and June 30, 2014, respectively, are shown in Appendix B – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMPER 30, 2015 AND 2014 (UNAUDITED)."

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

Variable Rate and Swap Obligations

As of November 1, 2015, Metropolitan had outstanding $1.03 billion of variable rate obligations, including bonds bearing interest in the Index Mode or Flexible Index Mode (the "Index Tender Bonds"), special variable rate bonds initially designated as self-liquidity bonds (the "Self-Liquidity Bonds"), and variable rate demand obligations supported by standby bond purchase agreements between Metropolitan and various liquidity providers ("Liquidity Supported Bonds").

Index Tender Bonds. The Index Tender Bonds have substantially similar terms and conditions; however, the unscheduled mandatory tender dates and related tender periods for the Index Tender Bonds may differ. The Index Tender Bonds bear interest at a rate that fluctuates weekly based on the SIFMA Municipal Swap Index published weekly by Municipal Market Data. The Index Tender Bonds outstanding as of November 1, 2015, are summarized in the following table:

Series	Date of Issuance	Original Principal Amount Issued	Next Scheduled Mandatory Tender Date	Maturity Date
2009 A-2	May 20, 2009	$104,180,000	January 11, 2016[(1)]	July 1, 2030
2011 A-1	June 2, 2011	64,440,000	August 16, 2016	July 1, 2036
2011 A-2	June 2, 2011	50,000,000	March 27, 2018	July 1, 2036
2011 A-3	June 2, 2011	64,435,000	August 16, 2016	July 1, 2036
2011 A-4	June 2, 2011	50,000,000	March 27, 2018	July 1, 2036
2012 B-1	April 27, 2012	49,295,000	March 27, 2018	July 1, 2027
2012 B-2	April 27, 2012	49,290,000	March 27, 2018	July 1, 2027
2013 E[(2)]	July 2, 2013	104,820,000	January 29, 2016	July 1, 2030
Total		**$536,460,000**		

Source: Metropolitan.

(1) It is anticipated that in early December 2015, the Series 2009 A-2 bonds will be remarketed with a new Scheduled Mandatory Tender Date of August 30, 2016.

(2) Flexible Index Mode Bonds. The terms and conditions of Flexible Index Mode Bonds are substantially similar to Index Mode Bonds except that each tender period may not exceed 270 days.

The Index Tender Bonds are subject to mandatory tender under certain circumstances. Metropolitan anticipates that it will pay the purchase price of tendered Index Tender Bonds from the proceeds of remarketing such Index Tender Bonds or from other available funds. Metropolitan's obligation to pay the purchase price of such Index Tender Bonds is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds, Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of Index Tender Bonds in connection with a scheduled mandatory tender. If the purchase price of the Index Tender Bonds of any Series is not paid from the proceeds of remarketing or other funds following a scheduled mandatory tender, such Index Tender Bonds then will bear interest at a default rate of up to 12 percent per annum until purchased by Metropolitan or redeemed. Failure to pay the purchase price of a series of Index Tender Bonds on a scheduled mandatory tender date is a default under the related paying agent agreement, upon the occurrence and continuance of which a majority in aggregate principal amount of the owners of such series of Index Tender Bonds may elect a bondholders' committee to exercise rights and powers of such owners under such paying agent agreement. Failure to pay the purchase price of a series of Index Tender Bonds on a scheduled mandatory tender date is not a default under the Master Resolution. If the purchase price of the Index Tender Bonds of any series is not paid on a scheduled mandatory tender date, such Index Tender Bonds will also be subject to special mandatory redemption, in part, 18, 36 and 54 months following the purchase default. Any such special mandatory redemption payment will constitute a Bond Obligation payable on parity with the Parity Bonds and the Parity Obligations.

Self-Liquidity Bonds. As of November 1, 2015, Metropolitan had $339.9 million of outstanding self-liquidity bonds, comprised of $87.4 million Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D, $63.6 million Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D, and $188.9 million Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A1 and A2. The Self-Liquidity Bonds are subject to optional tender upon seven days' notice by the owners thereof and mandatory tender upon specified events. Metropolitan is irrevocably committed to purchase all Self-Liquidity Bonds tendered pursuant to any optional or mandatory tender to the extent that remarketing proceeds are insufficient therefor and no standby bond purchase agreement or other liquidity facility is in effect. Metropolitan's obligation to pay the purchase price of any tendered Self-Liquidity Bonds is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. In addition, Metropolitan's investment policy permits it to purchase tendered Self-Liquidity Bonds as an investment for its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds). Thus, while Metropolitan is only obligated to purchase tendered Self-Liquidity Bonds from Net Operating Revenues, it may use the cash and investments in its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds and amounts posted as collateral with interest rate swap counterparties as described below) to purchase tendered Self-Liquidity Bonds. Metropolitan has not secured any liquidity facility or letter of credit to pay the purchase price of any tendered Self-Liquidity Bonds; however, Metropolitan has entered into a Revolving Credit Agreements (as described below) pursuant to which it may make borrowings for the purpose of paying the purchase price of Self-Liquidity Bonds. See "—Revolving Credit Agreements" below. Failure to pay the purchase price of Self-Liquidity Bonds upon optional or mandatory tender is not a default under the related paying agent agreement or a default under the Master Resolution.

Liquidity Supported Bonds. The interest rates for Metropolitan's other variable rate demand obligations, totaling $151.3 million as of November 1, 2015, are reset on a daily or weekly basis. Such variable rate demand obligations are supported by Standby Bond Purchase Agreements between Metropolitan and various liquidity providers that provide for purchase of variable rate bonds by the applicable liquidity provider upon tender of such variable rate bonds and a failed remarketing. A decline in the creditworthiness of a liquidity provider will likely result in an increase in the interest rate of the applicable variable rate bonds, as well as an increase in the risk of a failed remarketing of such tendered variable rate bonds. Variable rate bonds purchased by a liquidity provider bear interest at a significantly higher interest rate and Metropolitan's obligation to reimburse the liquidity provider may convert the term of the variable rate bonds purchased by the liquidity provider into a term loan amortizable over a period of up to three years, depending on the applicable liquidity facility.

The following table lists the liquidity providers, the expiration date of each facility and the principal amount of outstanding variable rate demand obligations covered under each facility as of November 1, 2015.

Liquidity Provider	Bond Issue	Principal Outstanding	Facility Expiration
Wells Fargo Bank, N.A.	2000 Authorization Series B-3	$ 88,800,000	February 2017
Barclays Bank PLC	2008 Series A-2	$62,465,000	September 2016
Total		$151,265,000	

Source: Metropolitan.

Variable Rate Exposure Policy. As of November 1, 2015, of Metropolitan's $1.03 billion of variable rate obligations, $493.6 million of variable rate demand obligations which are treated by Metropolitan as fixed rate debt, by virtue of interest rate swap agreements, for the purpose of calculating debt service requirements. The remaining $534 million of variable rate obligations represent approximately 13.3 percent of total outstanding water revenue bonds, as of November 1, 2015.

Metropolitan's variable rate exposure policy requires that variable rate debt be managed to limit net interest cost increases within a fiscal year as a result of interest rate changes to no more than $5 million. In addition, the maximum amount of variable interest rate exposure (excluding variable rate bonds associated with interest rate swap agreements) is limited to 40 percent of total outstanding water revenue bond debt. Variable rate debt capacity will be reevaluated as interest rates change and managed within these parameters.

Interest Rate Swap Transactions. By resolution adopted on September 11, 2001, Metropolitan's Board authorized the execution of interest rate swap transactions and related agreements in accordance with a master swap policy, which was subsequently amended by resolutions adopted on July 14, 2009 and May 11, 2010. Metropolitan may execute interest rate swaps if the transaction can be expected to reduce exposure to changes in interest rates on a particular financial transaction or in the management of interest rate risk derived from Metropolitan's overall asset/liability balance, result in a lower net cost of borrowing or achieve a higher net rate of return on investments made in connection with or incidental to the issuance, incurring or carrying of Metropolitan's obligations or investments, or manage variable interest rate exposure consistent with prudent debt practices and Board-approved guidelines. The Chief Financial Officer reports to the Finance and Insurance Committee of Metropolitan's Board each quarter on outstanding swap transactions, including notional amounts outstanding, counterparty exposures and termination values based on then-existing market conditions.

Metropolitan currently has one type of interest rate swap, referred to in the table below as "Fixed Payor Swaps." Under this type of swap, Metropolitan receives payments that are calculated by reference to a floating interest rate and makes payments that are calculated by reference to a fixed interest rate.

Net payments under the terms of the interest rate swap agreements are payable on a parity with the Parity Obligations. Termination payments under the 2002A and 2002B interest rate swap agreements would be payable on a parity with the Parity Obligations. All other termination payments related to interest rate swap agreements would be subordinate to the Parity Obligations.

The following swap transactions were outstanding as of November 1, 2015:

FIXED PAYOR SWAPS:

Designation	Notional Amount Outstanding	Swap Counterparty	Fixed Payor Rate	MWD Receives	Maturity Date
2002 A	$75,838,400	Morgan Stanley Capital Services, Inc.	3.300	57.74% of one-month LIBOR	7/1/2025
2002 B	28,371,600	JPMorgan Chase Bank	3.300	57.74% of one-month LIBOR	7/1/2025
2003[(1)]	158,597,500	Wells Fargo Bank	3.257	61.20% of one-month LIBOR	7/1/2030
2003	158,597,500	JPMorgan Chase Bank	3.257	61.20% of one-month LIBOR	7/1/2030
2004 C	7,760,500	Morgan Stanley Capital Services, Inc.	2.980	61.55% of one-month LIBOR	10/1/2029
2004 C	6,349,500	Citigroup Financial Products, Inc.	2.980	61.55% of one-month LIBOR	10/1/2029
2005	29,057,500	JPMorgan Chase Bank	3.360	70% of 3-month LIBOR	7/1/2030
2005	29,057,500	Citigroup Financial Products, Inc.	3.360	70% of 3-month LIBOR	7/1/2030
Total	$493,630,000				

Source: Metropolitan.

(1) The obligations under this interest rate swap agreement were assigned by Deutsche Bank AG, New York Branch, to Wells Fargo Bank, pursuant to novation transactions dated July 1, 2015.

These interest rate swap agreements entail risk to Metropolitan. The counterparty may fail or be unable to perform, interest rates may vary from assumptions, Metropolitan may be required to post collateral in favor of its counterparties and Metropolitan may be required to make significant payments in the event of an early termination of an interest rate swap. Metropolitan believes that if such an event were to occur, it would not have a material adverse impact on its financial position. Metropolitan seeks to manage counterparty risk by diversifying its swap counterparties, limiting exposure to any one counterparty, requiring collateralization or other credit enhancement to secure swap payment obligations, and by requiring minimum credit rating levels. Initially swap counterparties must be rated at least "Aa3" or "AA-", or equivalent by any two of the nationally recognized credit rating agencies; or use a "AAA" subsidiary as rated by at least one nationally recognized credit rating agency. Should the credit rating of an existing swap counterparty drop below the required levels, Metropolitan may enter into additional swaps if those swaps are "offsetting" and risk-reducing swaps. Each counterparty is initially required to have minimum capitalization of at least $150 million. See Note 5(f) in Appendix B - THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMPER 30, 2015 AND 2014 (UNAUDITED)."

Early termination of an interest rate swap agreement could occur due to a default by either party or the occurrence of a termination event. As of September 30, 2015, Metropolitan would have been required to pay to its counterparties termination payments if some of its swaps were terminated on that date and would have been entitled to receive termination payments from its counterparties if other swaps were terminated. Metropolitan's net exposure to its counterparties for all such termination payments on that date was approximately $93 million. Metropolitan does not presently anticipate early termination of any of its interest rate swap agreements due to default by either party or the occurrence of a termination event. However, effective June 28, 2012, Metropolitan exercised optional early termination provisions to terminate all or a portion of certain interest rate swap agreements totaling a notional amount of $322 million. Effective February 12, 2014, Metropolitan exercised optional early termination provisions to terminate a portion of certain interest rate swap agreements, totaling a notional amount of $147 million. Effective July 29, 2014, Metropolitan optionally terminated portions of certain interest rate swap agreements totaling a notional amount of $163 million.

Metropolitan is required to post collateral in favor of a counterparty to the extent that Metropolitan's total exposure for termination payments to that counterparty exceeds the threshold specified in the applicable swap agreement. Conversely, the counterparties are required to release collateral to Metropolitan or post collateral for the benefit of Metropolitan as market conditions become favorable to Metropolitan. As of September 30, 2015, Metropolitan had no collateral posted with any counterparty. The highest, month-end, amount of collateral posted was $36.8 million, on June 30, 2012, which was based on an outstanding swap notional amount of $1.4 billion. The amount of required collateral varies from time to time due primarily to interest rate movements and can change significantly over a short period of time. See "METROPOLITAN REVENUES—Financial Reserve Policy" in this Appendix A. In the future, Metropolitan may be required to post additional collateral, or may be entitled to a reduction or return of the required collateral amount. Collateral deposited by Metropolitan is held by the counterparties; a bankruptcy of any counterparty holding collateral posted by Metropolitan could adversely affect the return of the collateral to Metropolitan. Moreover, posting collateral limits Metropolitan's liquidity. If collateral requirements increase significantly, Metropolitan's liquidity may be materially adversely affected. See "METROPOLITAN REVENUES—Financial Reserve Policy" in this Appendix A.

Build America Bonds

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

The Budget Control Act of 2011 (the "Budget Control Act") provided for increases in the federal debt limit and established procedures designed to reduce the federal budget deficit. The Budget Control Act provided that a failure to reduce the deficit would result in sequestration, which are automatic, generally across-the-board, spending reductions. These reductions began on March 1, 2013 pursuant to an executive order that reduced budgetary authority for expenditures subject to sequestration, including subsidies for Build America Bonds. Pursuant to this executive order, the approximately $6.64 million Interest Subsidy Payment that Metropolitan received on July 1, 2013 was reduced by 8.7 percent, or $578,000, to $6.06 million. Interest Subsidy Payments processed on or after October 1, 2014 and on or before September 30, 2015 are anticipated to be reduced by the federal fiscal year 2014-2015 sequestration rate of 7.3 percent, and by the federal fiscal year 2015-16 sequestration rate of 6.8 percent. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change. Metropolitan can offer no assurances as to future subsidy payments and expects that once it receives less than any full 35 percent subsidy payment, the United States Treasury will not thereafter reimburse Metropolitan for payments not made.

Other Revenue Obligations

As of November 1, 2015, Metropolitan had outstanding $31.2 million of 2012 Series E-3 Bonds, $30.3 million of 2014 Series C Bonds in three series, and $57.8 million of 2014 Series G in five series, bearing interest in a term mode (the "Term Mode Bonds"). The Term Mode Bonds initially bear interest at a fixed rate for a specified period from their date of issuance, after which there shall be determined a new interest mode for each series (which may be another term mode, a daily mode, a weekly mode, a short-term mode or an index mode) or the Term Mode Bonds may be converted to bear fixed interest rates through the maturity date thereof. The owners of the Term Mode Bonds of a series must tender for purchase, and Metropolitan must purchase, all of the Term Mode Bonds of such series on the specified scheduled mandatory tender date of each term period for such series. The scheduled mandatory tender date for the 2012 Series E-3 Bonds is October 1, 2016. For the three series of 2014 Series C Bonds, the scheduled mandatory tender dates are October 1, 2019, October 1, 2020 and October 1, 2021. For the five series of 2014 Series G Bonds, the scheduled mandatory tender dates are October 1, 2016, 2017, 2018, 2019, and 2020, respectively. Metropolitan may call the Term Mode Bonds on or after the Call Protection Date for each of the series of Term Mode Bonds.

Metropolitan will pay the principal of, and interest on, the Term Mode Bonds on parity with its other Parity Bonds. Metropolitan anticipates that it will pay the purchase price of tendered Term Mode Bonds from the proceeds of remarketing such Term Mode Bonds or from other available funds. Metropolitan's obligation to pay the purchase price of such Term Mode Bonds is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Bonds and Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of Term Mode Bonds in connection with any scheduled mandatory tender. If the purchase price of the Term Mode Bonds of any series is not paid from the proceeds of remarketing or other funds following a scheduled mandatory tender, such Term Mode Bonds will then bear interest at a default rate of up to 12 percent per annum until purchased by Metropolitan or redeemed. If the purchase price of the Term Mode Bonds of any series is not paid on a scheduled mandatory tender date, such Term Mode Bonds will also be subject to special mandatory redemption, in part, 18, 36 and 54 months following the purchase default. Any such special mandatory redemption payment will constitute a Bond Obligation payable on parity with the Parity Bonds and the Parity Obligations.

Revolving Credit Agreements

Metropolitan currently has $276.5 million of available revolving credit agreement facilities. On March 21, 2013, Metropolitan entered into a revolving credit agreement ("the BNY Mellon Revolving Credit Agreement") with The Bank of New York Mellon ("BNY Mellon"). Under the terms and conditions of the BNY Mellon Revolving Credit Agreement, Metropolitan may borrow up to $96,545,900 for purposes of paying the purchase price of any Self-Liquidity Bonds. The scheduled expiration date of the BNY Mellon Revolving Credit Agreement is March 31, 2016. On July 1, 2015, Metropolitan executed a revolving credit agreement with Wells Fargo Bank, N.A., (the "Wells Fargo Revolving Credit Agreement", and together with the BNY Mellon Revolving Credit Agreement, "the Revolving Credit Agreements"). Under the terms and conditions of the Wells Fargo Revolving Credit Agreement, Metropolitan will be able to borrow up to $180,000,000 for purposes of paying the purchase price of any Self-Liquidity Bonds. The scheduled expiration date of the Wells Fargo Revolving Credit Agreement is July 1, 2018. On November 4, 2015, Wells Fargo Bank assigned $100,000,000 of its share of the Wells Fargo Revolving Credit Agreement to the Industrial and Commercial Bank of China ("ICBC"). Wells Fargo will retain the remaining $80,000,000 commitment. ICBC assumed all of Wells Fargo's obligations with respect to its $100 million share under the Wells Fargo Revolving Credit Agreement.

Under the existing Revolving Credit Agreements, a failure by Metropolitan to perform or observe certain covenants could result in a termination of BNY Mellon's and Wells Fargo Bank's commitments and entitle them to declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the Revolving Credit Agreements as Parity Obligations under the Master Resolution. Metropolitan has no obligation to make borrowings under, maintain, or renew the Revolving Credit Agreements. See "—Limitations on Additional Revenue Bonds" above.

In the Revolving Credit Agreements, Metropolitan designated the principal and interest payable as Excluded Principal Payments under the Master Resolution and thus, for purposes of calculating Maximum Annual Debt Service, included the amount of principal and interest due and payable under the Revolving Credit Agreements on a schedule of Assumed Debt Service. This schedule of Assumed Debt Service assumes that Metropolitan will pay the principal under the Revolving Credit Agreements over a period of 30 years at a fixed interest rate of 3.75 percent. Pursuant to the terms of the Master Resolution, while the Revolving Credit Agreements are in force and effect, when Metropolitan calculates its covenant relating to the creation or incurrence of additional indebtedness, it will add an amount to its Net Operating Revenues relating to an assumed annual debt service payment that Metropolitan would receive if it were to use the proceeds of the Revolving Credit Agreements to purchase Self-Liquidity Bonds.

Metropolitan is considering entering into a revolving credit facility for up to $400 million that could be accessed on a revolving basis to fund capital expenditures, provide reimbursement for capital expenditures, refund outstanding obligations, or as a source for working capital on a short-term basis.

Subordinate Revenue Obligations

Metropolitan currently is authorized to issue subordinate debt of up to $400,000,000 of Commercial Paper Notes payable from Net Operating Revenues on a basis subordinate to the Parity Bonds and the Parity Obligations. Although no Commercial Paper Notes are currently outstanding, the authorization remains in full force and effect and Metropolitan may issue Commercial Paper Notes from time to time. In addition, Metropolitan obtained a $20 million California Safe Drinking Water Revolving Fund Loan in 2003 at an interest rate of 2.39 percent per annum to reimburse construction costs for oxidation retrofit facilities at the Henry J. Mills Treatment Plant in Riverside County. The loan payment obligation is subordinate to the Parity Bonds and Parity Obligations. As of November 1, 2015, the principal balance outstanding was $10.2 million.

General Obligation Bonds

As of November 1, 2015, $110,420,000 aggregate principal amount of general obligation bonds payable from *ad valorem* property taxes were outstanding. See "METROPOLITAN REVENUES — General" and "— Revenue Allocation Policy and Tax Revenues" in this Appendix A. Metropolitan's revenue bonds are not payable from the levy of *ad valorem* property taxes.

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

Source: Metropolitan.

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

State Water Contract Obligations

General. On November 4, 1960, Metropolitan entered into its State Water Contract with DWR, under which Metropolitan receives an entitlement to water service from the State Water Project. Subsequently, other public agencies also entered into water supply contracts with DWR, all of which were patterned after Metropolitan's State Water Contract. Metropolitan's State Water Contract accounts for nearly one-half of the total entitlement for State Water Project water contracted for by all contractors.

The State Water Contract will remain in effect until 2035 or until all DWR bonds issued to finance construction of project facilities are repaid, whichever is longer. At the expiration of the State Water Contract, Metropolitan has the option to continue service under substantially the same terms and conditions. In June 2014, DWR and State Water Project Contractors reached an AIP to extend the contract to 2085 and to make certain changes related to the financial management of the State Water Project in the future. See "METROPOLITAN'S WATER SUPPLY—State Water Project" in this Appendix A. As of November 1, 2015, the latest maturity of outstanding DWR bonds issued for such purpose was December 1, 2035.

Under the State Water Contract, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operating and maintenance costs through at least 2035, regardless of quantities of water available from the project. Other payments are based on deliveries requested and actual deliveries received, costs of power required for actual deliveries of water, and offsets for credits received. Metropolitan's payment obligation for the State Water Project for the fiscal year ended June 30, 2015 was $437 million, which amount reflects prior year's credits of $74.2 million. For the fiscal year ended June 30, 2015, Metropolitan's payment obligations under the State Water Contract were approximately 31 percent of Metropolitan's total annual expenditures. A portion of Metropolitan's annual property tax levy is for payment of State Water Contract obligations, as described above under "METROPOLITAN REVENUES—General" in this Appendix A. See Note 9(a) to Metropolitan's audited financial statements in Appendix B for an estimate of Metropolitan's payment obligations under the State Water Contract. Also see "POWER SOURCES AND COSTS" in this Appendix A for a description of current and future costs for electric power required to operate State Water Project pumping systems and a description of litigation involving the federal relicensing of the Hyatt-Thermalito hydroelectric generating facilities at Lake Oroville.

The State Water Contract requires that in the event that Metropolitan fails or is unable to raise sufficient funds by other means, Metropolitan must levy upon all property within its boundaries not exempt from taxation a tax or assessment sufficient to provide for all payments under the State Water Contract. Currently, a portion of the capital costs under the State Water Contract are paid from *ad valorem* taxes levied by Metropolitan. In the opinion of Metropolitan's General Counsel, a tax increase to provide for additional payments under the State Water Contract would be within the exemption permitted under Article XIIIA of the State Constitution as a tax to pay pre-1978 voter approved indebtedness.

Metropolitan capitalizes its share of system construction costs as participation rights in State Water Project facilities as such costs are billed by DWR. Unamortized participation rights essentially represent a prepayment for future water deliveries through the State Water Project system. Metropolitan's share of system operating and maintenance costs are annually expensed.

Metropolitan has entered into amendments to the State Water Contract that represent additional long-term obligations, as described below.

Devil Canyon-Castaic Contract. On June 23, 1972, Metropolitan and five other southern California public agencies entered into a contract (the "Devil Canyon-Castaic Contract") with DWR for the financing and construction of the Devil Canyon and Castaic power recovery facilities, located on the aqueduct system of the State Water Project. Under this contract, DWR agreed to build the Devil Canyon and Castaic facilities, using the proceeds of revenue bonds issued by DWR under the State Central Valley Project Act. DWR also agreed to use and apply the power made available by the construction and operation of such facilities to deliver water to Metropolitan and the other contracting agencies. Metropolitan, in turn, agreed to pay to DWR 88 percent of the debt service on the revenue bonds issued by DWR. For calendar year 2014, this represented a payment of $6.7 million. In addition, Metropolitan agreed to pay 78.5 percent of the operation and maintenance expenses of the Devil Canyon facilities and 96 percent of the operation and maintenance expenses of the Castaic facilities. Metropolitan's obligations under the Devil Canyon-Castaic Contract continue until the bonds are fully retired in 2022 even if DWR is unable to operate the facilities or deliver power from these facilities.

Off-Aqueduct Power Facilities. In addition to system "on-aqueduct" power facilities costs, DWR has, either on its own or by joint venture, financed certain off-aqueduct power facilities. The power generated is utilized by the system for water transportation and other State Water Project purposes. Power generated in excess of system needs is marketed to various utilities and the California Independent System Operator. Metropolitan is entitled to a proportionate share of the revenues resulting from sales of excess power. By virtue of a 1982 amendment to the State Water Contract and the other water supply contracts, Metropolitan and the other water contractors are responsible for paying the capital and operating costs of the off-aqueduct power facilities regardless of the amount of power generated. Other costs of Metropolitan in relation to the State Water Project and the State Water Contract may increase as a result of restructuring of California's electric utility industry and new Federal Energy Regulatory Commission ("FERC") regulations.

East Branch Enlargement Amendment. In 1986, Metropolitan's State Water Contract and the water supply contracts of certain other State Water Project Contractors were amended for the purpose, among others, of financing the enlargement of the East Branch of the California Aqueduct. Under the amendment, enlargement of the East Branch can be initiated either at Metropolitan's request or by DWR finding that enlargement is needed to meet demands. Metropolitan, the other State Water Contractors on the East Branch, and DWR are currently in discussions on the timetable and plan for future East Branch enlargement actions.

The amendment establishes a separate subcategory of the Transportation Charge under the State Water Contract for the East Branch Enlargement and provides for the payment of costs associated with financing and operating the East Branch Enlargement. Under the amendment, the annual financing costs for such facilities financed by bonds issued by DWR are allocated among the participating contractors based upon the delivery capacity increase allocable to each participating contractor. Such costs include, but are not limited to, debt service, including coverage requirements, deposits to reserves, and certain operation and maintenance expenses, less any credits, interest earnings or other moneys received by DWR in connection with this facility.

If any participating contractor defaults on payment of its allocable charges under the amendment, among other things, the non-defaulting participating contractors may assume responsibility for such charges and receive delivery capability that would otherwise be available to the defaulting participating contractor in proportion to the non-defaulting contractor's participation in the East Branch Enlargement. If participating contractors fail to cure the default, Metropolitan will, in exchange for the delivery capability that would otherwise be available to the defaulting participating contractor, assume responsibility for the capital charges of the defaulting participating contractor.

Water System Revenue Bond Amendment. In 1987, the State Water Contract and other water supply contracts were amended for the purpose of financing State Water Project facilities through revenue bonds. This amendment establishes a separate subcategory of the Delta Water Charge and the Transportation Charge for projects financed with DWR water system revenue bonds. This subcategory of charge provides the revenues required to pay the annual financing costs of the bonds and consists of two elements. The first element is an annual charge for repayment of capital costs of certain revenue bond financed water system facilities under the existing water supply contract procedures. The second element is a water system revenue bond surcharge to pay the difference between the total annual charges under the first element and the annual financing costs, including coverage and reserves, of DWR's water system revenue bonds.

If any contractor defaults on payment of its allocable charges under this amendment, DWR is required to allocate a portion of the default to each of the nondefaulting contractors, subject to certain limitations, including a provision that no nondefaulting contractor may be charged more than 125 percent of the amount of its annual payment in the absence of any such default. Under certain circumstances, the nondefaulting contractors would be entitled to receive an allocation of the water supply of the defaulting contractor.

The following table sets forth Metropolitan's projected costs of State Water Project water based upon DWR's Annual Billing to Metropolitan for calendar year 2016 and, for fiscal year 2015-16, actual financial results through September 30, 2015 and revised projections for the balance of fiscal year 2015-16. For all other years the projections are based on Metropolitan's adopted biennial budget for fiscal years 2014-15 and 2015-16 and the ten-year financial forecast included in the adopted budget. See "METROPOLITAN'S WATER SUPPLY—State Water Project—*Bay-Delta Planning Activities*" in this Appendix A.

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PROJECTED COSTS OF METROPOLITAN
FOR STATE WATER PROJECT WATER(1)
(Dollars in Millions)

Year Ending June 30	Capital Costs	Minimum OMP&R(2)	Power Costs(3)	Refunds & Credits	Total(4)
2016	$168.9	$277.8	$103.7	$(33.4)	$517.0
2017	183.6	190.1	212.6	(36.6)	549.7
2018	193.3	191.0	221.9	(36.4)	569.8
2019	206.6	192.6	235.2	(35.9)	598.4
2020	245.8	194.1	257.5	(34.3)	663.1

Source: Metropolitan.

(1) Projections are based upon DWR's Annual Billing to Metropolitan for 2016 and attachments (dated July 1, 2015) and, for fiscal year 2015-16, actual financial results through September 30, 2015 and revised projections for the balance of the fiscal year. For other years, the projections are based on Metropolitan's adopted biennial budget for fiscal years 2014-15 and 2015-16, and the ten-year financial forecast included in the adopted budget.. All costs are adjusted from calendar year to fiscal year periods ending June 30. The total charges shown above differ from those shown in Note 9 of Metropolitan's audited financial statements for the fiscal years ended June 30, 2015 and June 30, 2014, in Appendix B, due to the inclusion of allowances for inflation and anticipated construction of additional State Water Project facilities. See "POWER SOURCES AND COSTS—State Water Project" in this Appendix A.

(2) Minimum Operations, Maintenance, Power and Replacement ("OMP&R") represents costs which are fixed and do not vary with the amount of water delivered.

(3) Assumptions for water deliveries through the California Aqueduct (not including SBVMWD and DWA/CVWD transfers and exchanges) into Metropolitan's service area and to storage programs are as follows: 0.59 million acre-feet for fiscal year 2015-16, 0.91 million acre-feet for fiscal year 2016-17, 0.93 million acre-feet for fiscal year 2017-18, 0.93 million acre-feet for fiscal year 2018-18, and 0.93 million acre-feet for fiscal year 2019-20. Availability of State Water Project supplies vary and deliveries may include transfers and storage. All deliveries are within maximum contract amount and are based upon availability, as determined by hydrology, water quality and wildlife conditions. See "METROPOLITAN'S WATER SUPPLY—State Water Project—*Endangered Species Act Considerations*" in this Appendix A.

(4) Annual totals include BDCP related costs for the fiscal years ended June 30, 2016 through June 30, 2020 of $-0- in fiscal year 2015-16, $15 million in fiscal year 2016-17, $24 million in fiscal year 2017-18, $46 million in fiscal year 2018-19, and $91 million in fiscal year 2019-20. Projected BDCP costs are reflected in the ten-year financial forecast provided in the biennial budget for fiscal years 2014-15 and 2015-16 that was approved by Metropolitan's Board on April 8, 2014.

Other Long-Term Commitments

Metropolitan also has various ongoing fixed annual obligations under its contract with the United States Department of Energy for power from the Hoover Power Plant. Under the terms of the Hoover Power Plant contract, Metropolitan purchases energy to pump water through the CRA. In fiscal year 2014-15 Metropolitan paid approximately $39.6 million under this contract. Payments made under the Hoover Power Plant contract are treated as operation and maintenance expenses. On March 12, 2014, Metropolitan and the other Hoover Contractors funded the defeasance of $124 million of bonds issued by the U.S. Treasury Department for facilities related to the Hoover Dam and Power Plant. Following this repayment, Metropolitan expects to reduce its annual payment for Hoover power by approximately $2.3 million. See "POWER SOURCES AND COSTS—Colorado River Aqueduct" in this Appendix A.

Defined Benefit Pension Plan and Other Post-Employment Benefits

Metropolitan is a member of the California Public Employees' Retirement System ("PERS"), a multiple-employer pension system that provides a contributory defined-benefit pension for substantially all Metropolitan employees. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. A menu of benefit provisions is established by State statutes within the Public Employees' Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with PERS.

Metropolitan makes contributions to PERS based on actuarially determined employer contribution rates. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. Employees are required to contribute seven percent of their earnings (excluding overtime pay) to PERS. Pursuant to the current memoranda of understanding, Metropolitan contributes the requisite seven percent contribution for all employees represented by the Management and Professional Employees Association, the Association of Confidential Employees, Supervisors and Professional Personnel Association and AFSCME Local 1902 and who were hired prior to January 1, 2012. Employees in all four bargaining units who were hired on or after January 1, 2012, pay the full seven percent employee contribution to PERS. Metropolitan contributes the entire seven percent on behalf of unrepresented employees. In addition, Metropolitan is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS. The fiscal year 2014-15 contribution requirement is based on the June 30, 2012 valuation report, and the fiscal year 2015-16 contribution is based on the June 30, 2013 valuation report. The PERS' projected investment return (the discount rate) for fiscal years 2014-15, and 2015-16 is 7.5 percent.

For fiscal year 2014-15, Metropolitan contributed 17.65 percent of annual covered payroll. The fiscal year 2014-15 annual pension cost was $47.0 million, of which $12.7 million was for Metropolitan's pick-up of the employees' seven percent share. For fiscal year 2015-16, Metropolitan is required to contribute 19.74 percent of annual covered payroll, in addition to member contributions paid by Metropolitan.

On April 17, 2013, the PERS Board of Administration approved changes to the amortization and smoothing policies to spread all gains and losses over a fixed 30-year period from a rolling 30-year period, and to recognize increases or decreases in investment returns over a 5-year period versus a 15-year period. In addition, PERS will no longer use an actuarial valuation of assets. These changes will result in higher employer contribution rates in the near term but lower rates in the long term. The new policies will be effective for fiscal year 2015-16. The following table shows the funding progress of Metropolitan's pension plan.

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Metropolitan Pension Plan Assets
(dollars in billions)

				Funded (Unfunded)		Funded Ratios	
Valuation Date	**Accrued Liability**	**Actuarial Value of Assets**	**Market Value of Assets**	**Actuarial Value**	**Market Value**	**Actuarial Value**	**Market Value**
6/30/13	$1.805	N/A	$1.356	N/A	($0.449)	N/A	75.1%
6/30/12	$1.731	$1.471	$1.227	($0.260)	($0.504)	85.0%	70.9%
6/30/11	$1.674	$1.416	$1.257	($0.258)	($0.417)	84.5%	75.1%
6/30/10	$1.563	$1.351	$1.059	($0.212)	($0.504)	86.4%	67.7%
6/30/09	$1.478	$1.287	$0.940	($0.191)	($0.538)	87.1%	63.6%
6/30/08	$1.334	$1.232	$1.256	($0.102)	($0.078)	92.3%	94.1%

Source: California Public Employees' Retirement System.

For more information on the plan, see Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMPER 30, 2015 AND 2014 (UNAUDITED)."

Metropolitan currently provides post-employment medical insurance to retirees and pays the post-employment medical insurance premiums to PERS. On January 1, 2012, Metropolitan implemented a longer vesting schedule for retiree medical benefits, which applies to all new employees hired on or after January 1, 2012. Payments for this benefit were $13.0 million in fiscal year 2014-15. Under Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, Metropolitan is required to account for and report the outstanding obligations and commitments related to such benefits, commonly referred to as other post-employment benefits ("OPEB"), on an accrual basis.

The most recent actuarial valuation dated June 30, 2013 was released in February of 2014. This valuation indicates that the ARC in fiscal years 2014-15 and 2015-16 are $29.5 million and $30.3 million, respectively. The ARC was based on a June 30, 2013 actuarial valuation using the entry-age normal actuarial cost method with contributions determined as a level percent of pay. The actuarial assumptions included (a) a 7.25 percent investment rate of return, (b) a general inflation component of 3.0 percent and (c) increases to basic medical premiums of 8.0 percent for non-Medicare plans for 2015, grading down to 5.0 percent for 2021 and thereafter. As of June 30, 2013, the date of the OPEB actuarial report, the unfunded OPEB liability was estimated to be $315.0 million. The unfunded actuarial accrued liability is amortized over a fixed 30-year period starting with fiscal year 2007-08 and ending in 2037. Changes to assumptions are amortized over a fixed 20-year period. Actuarial gains and losses are amortized over a fixed 15-year period.

In September 2013, Metropolitan's Board established an irrevocable OPEB trust fund with an initial deposit of $40.0 million. During fiscal year 2013-14, the Board approved funding of an additional $100.0

million which was deposited into the irrevocable OPEB trust fund. As part of its biennial budget process, the Board approved the full funding of the ARC for fiscal years 2014-15 and 2015-16.

HISTORICAL AND PROJECTED REVENUES AND EXPENSES

The "Historical and Projected Revenues and Expenses" table below for fiscal year 2011-12 provides a summary of revenues and expenditures of Metropolitan prepared on a cash basis, which conforms to the Revenue Bond Resolution provisions regarding rates and additional Bonds (as defined in the Master Resolution) and Parity Obligations (as defined in the Master Resolution). See "METROPOLITAN EXPENDITURES—Limitations on Additional Revenue Bonds" in this Appendix A. Under cash basis accounting, water sales revenues are recorded when received (two months after billed) and expenses when paid (approximately one month after invoiced). The actual financial reports beginning in fiscal year 2012-13 and the financial projections for fiscal years 2015-16 through 2019-20 are prepared on a modified accrual basis. This is consistent with the adopted biennial budget for fiscal years 2014-15 and 2015-16, which was prepared on a modified accrual basis instead of a cash basis. The table does not reflect the accrual basis of accounting, which is used to prepare Metropolitan's annual audited financial statements. The modified accrual basis of accounting varies from the accrual basis of accounting in the following respects: depreciation and amortization will not be recorded and payments of debt service will be recorded when due and payable. Under the modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus water sales revenues are recognized in the month the water is sold and expenses are recognized when goods have been received and services have been rendered. The change to modified accrual accounting is for budgeting purposes and Metropolitan will continue to calculate compliance with its rate covenant, limitations on additional bonds and other financial covenants in the Resolutions in accordance with their terms.

The projections are based on assumptions concerning future events and circumstances that may impact revenues and expenses and represent management's best estimates of results at this time. See footnotes to the table below entitled "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" for relevant assumptions, including projected water sales and average annual increase in the effective water rate, and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" for a discussion of potential impacts. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the projection period will vary from the projections and the variations may be material.

For fiscal year 2014-15, Miscellaneous Revenues reflect the use of $142 million from reserves, to fund a like amount of costs for conservation and supply programs. Fiscal year 2015-16 reflects actual financial results through September 30, 2015 and revised projections for the balance of the fiscal year. Projections for fiscal year 2015-16 reflect the use of $320 million from reserves to fund a like amount of costs for conservation and supply programs. For fiscal years 2016-17 through 2019-20, the projections reflect the ten-year financial forecast provided in the biennial budget for fiscal years 2014-15 and 2015-16 that was approved on April 8, 2014. This includes the projected issuance of $250 million of bonds through fiscal year 2019-20 to finance the CIP. See "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES—Water Sales Revenues" and "CAPITAL INVESTMENT PLAN—Capital Investment Plan Financing" in this Appendix A.

Water sales were 1.905 million acre-feet in fiscal year 2014-15. Water sales are projected to be 1.60 million acre-feet in fiscal year 2015-16 and 1.75 million acre-feet for each of fiscal years 2016-17 through 2019-20. Rates and charges increased by 1.5 percent on January 1, 2015 and will increase by 1.5 percent on January 1, 2016. Rates and charges are projected to increase 3.0 percent to 5.0 percent annually thereafter. Actual rates and charges to be effective in 2017 and thereafter are subject to adoption by Metropolitan's

Board. The projections were prepared by Metropolitan and have not been reviewed by independent certified public accountants or any entity other than Metropolitan. Dollar amounts are rounded.

Metropolitan's resource planning projections are developed using a comprehensive analytical process that incorporates demographic growth projections from recognized regional planning entities, historical and projected data acquired through coordination with local agencies, and the use of generally accepted empirical and analytical methodologies. See "METROPOLITAN'S WATER SUPPLY—Integrated Water Resources Plan" and "—The Integrated Resources Plan Strategy" in this Appendix A. Metropolitan has conservatively set the water sales projections in the following table which are below its projections for resource planning purposes. Metropolitan estimates that its water sales projections have a seventy percent statistical likelihood of being exceeded, compared to the fifty percent exceedance levels in the projections of water sales used to set prior years' budgets and rates. Nevertheless, Metropolitan's assumptions have been questioned by directors representing SDCWA on Metropolitan's Board. Metropolitan has reviewed SDCWA's concerns and, while recognizing that assumptions may vary, believes that the estimates and assumptions that support Metropolitan's projections are reasonable based upon history, experience and other factors as described above.

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

	Actual			Projected					
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Water Sales[b]	$1,062	$1,283	$1,485	$1,383	$1,154	$1,338	$1,378	$1,422	$1,482
Additional Revenue Sources[c]	168	173	182	199	200	196	198	202	211
Total Operating Revenues	1,230	1,456	1,667	1,582	1,354	1,534	1,576	1,624	1,693
O&M, CRA Power and Water Transfer Costs[d]	(476)	(456)	(512)	(697)	(926)	(587)	(613)	(640)	(660)
Total SWC OMP&R and Power Costs[e]	(316)	(337)	(342)	(308)	(377)	(396)	(408)	(425)	(449)
Total Operation and Maintenance	(792)	(793)	(854)	(1,005)	(1,303)	(983)	(1,021)	(1,065)	(1,109)
Net Operating Revenues	$ 438	$ 663	$ 813	$ 577	$51	$551	$ 555	$559	$584
Miscellaneous Revenue[f]	56	23	19	21	23	18	18	18	18
Transfer from Reserve Funds[g]	-	-	-	142	320	-	-	-	-
Sales of Hydroelectric Power[h]	31	25	15	8	8	20	21	21	21
Interest on Investments[i]	11	(2)	19	13	14	33	32	32	32
Adjusted Net Operating Revenues[j]	536	709	866	761	416	622	626	630	655
Bonds and Additional Bonds Debt Service[k]	(297)	(298)	(343)	(280)	(302)	(310)	(313)	(307)	(301)
Subordinate Revenue Obligations[l]	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Funds Available from Operations	$ 238	$ 410	$ 522	$ 480	$ 113	$ 311	$ 312	$ 322	$ 353
Bonds and Additional Bonds Debt Service Coverage[m]	1.81	2.38	2.52	2.72	1.38	2.01	2.00	2.05	2.18
Debt Service Coverage on all Obligations[n]	1.80	2.37	2.51	2.71	1.37	2.00	1.99	2.05	2.17
Funds Available from Operations	$ 238	$ 410	$ 522	$ 480	$ 113	$ 311	$ 312	$ 322	$ 353
Other Revenues (Expenses)	(3)	(5)	(6)	(7)	(8)	(8)	(9)	(9)	(9)
Pay-As-You Go Construction	(45)	(55)	(117)	(210)	-0-	(200)	(204)	(201)	(176)
Total SWC Capital Costs Paid from Current Year Operations	(112)	(88)	(68)	(46)	(62)	(83)	(84)	(89)	(129)
Remaining Funds Available from Operations	77	262	331	217	43	20	15	23	39
Fixed Charge Coverage[o]	1.31	1.83	2.10	2.33	1.14	1.58	1.57	1.59	1.53
Property Taxes	90	95	95	104	101	94	96	99	101
General Obligation Bonds Debt Service	(39)	(40)	(40)	(22)	(22)	(23)	(19)	(14)	(14)
SWC Capital Costs Paid from Taxes	(51)	(55)	(55)	(82)	(79)	(71)	(77)	(85)	(87)
Net Funds Available from Current Year[p]	$77	$262	$331	$217	$43	$20	$15	$23	$39
PAYGO Funded from Prior Year Revenues						$75	$32		
Use of Water Management, Stewardship, and Water Rate Stabilization Funds Designated in Prior Year Revenues[g]				($142)	($320)				

Source: Metropolitan.

(Footnotes on next page)

(a) Unaudited. Prepared on a cash basis for fiscal year ending June 30, 2012, and on a modified accrual basis for fiscal years ending June 30, 2013 through June 30, 2020. Projected revenues and expenditures in fiscal year 2015-16 are based on actual financial results through September 30, 2015 and revised projections for the balance of the fiscal year. Projections for fiscal years 2016-17 thru 2019-20 are based on assumptions and estimates used in the adopted 2014-15 and 2015-16 biennial budget and reflect the projected issuance of additional bonds.
(b) During the fiscal years ended June 30, 2012 through June 30, 2015, annual water sales (in acre-feet) were 1.68 million, (including 225,000 acre-feet of replenishment sales), 1.86 million, 2.04 million and 1.905 million, respectively. See "METROPOLITAN REVENUES—Water Sales Revenues," the table entitled "SUMMARY OF WATER SOLD AND WATER SALES" in this Appendix A. The water sales projections (in acre-feet) are 1.60 million acre-feet for fiscal year 2015-16 and 1.75 million for fiscal years 2016-17 through 2019-20. Projections reflect Board adopted rate and charge increases of 1.5 percent, which became effective on January 1, 2015 and 1.5 percent, which will become effective on January 1, 2016. Rates and charges are projected to increase 3.0 percent to 5.0 percent per fiscal year thereafter, subject to adoption by Metropolitan's Board. See "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" below.
(c) Includes receipts from water standby, readiness-to-serve and capacity charges. The term Operating Revenues excludes *ad valorem* taxes. See "METROPOLITAN REVENUES — Additional Revenue Components" in this Appendix A.
(d) Water Transfer Costs are included in operation and maintenance expenses for purposes of calculating the debt service coverage on all Obligations.
(e) Includes on and off aqueduct power and operation, maintenance, power and replacement costs payable under the State Water Contract. See "METROPOLITAN EXPENDITURES—State Water Contract Obligations" in this Appendix A.
(f) May include lease and rental net proceeds, net proceeds from sale of surplus property, reimbursements, and federal interest subsidy payments for Build America Bonds. Also includes in fiscal year 2011-12, $27.5 million from CVWD for delivery of 105,000 acre-feet under an exchange agreement between Metropolitan and CVWD. See "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct—*Quantification Settlement Agreement*" in this Appendix A.
(g) Reflects transfers from the Water Management Fund, the Water Stewardship Fund, and the Water Rate Stabilization Fund, of $142 million in fiscal year 2014-15, and projected transfers of $320 million in fiscal year 2015-16.
(h) Includes CRA power sales.
(i) Does not include interest applicable to Bond Construction Funds, the Excess Earnings Funds, other trust funds and the Deferred Compensation Trust Fund. Fiscal year 2012-13 included Fair Value Adjustment of $(13.8) million, as per modified accrual accounting
(j) Adjusted Net Operating Revenues is the sum of all available revenues that the revenue bond resolutions specify may be considered by Metropolitan in setting rates and issuing additional Bonds and Parity Obligations.
(k) Includes debt service on outstanding Bonds, and additional Bonds (projected). Assumes issuance of additional Bonds as provided in budget assumptions for the adopted biennial budget for fiscal years 2014-15 and 2015-16 as follows: $-0- for fiscal years 2015-16 and 2016-17, $40 million in fiscal year 2017-18, $100 million in fiscal year 2018-19, and $110 million in fiscal year 2019-20. Does not include anticipated issuance of $250 million in Water Revenue Bonds. For fiscal years 2013-14 and 2014-15, reflects the defeasance of the 2004 Series B Water Revenue Refunding Bonds, payable on July 1, 2014, through a payment of $33.7 million to an escrow account on May 29, 2014. See "CAPITAL INVESTMENT PLAN—Capital Investment Plan Financing" in this Appendix A.
(l) Consisting of subordinate lien California Safe Drinking Water Revolving Fund Loan debt service.
(m) Adjusted Net Operating Revenues divided by the sum of debt service on outstanding Bonds and additional Bonds (projected)
(n) Adjusted Net Operating Revenues, divided by the sum of debt service on outstanding Bonds, the subordinate lien California Safe Drinking Water Revolving Fund Loan and additional Bonds (projected). See "METROPOLITAN EXPENDITURES—Subordinate Revenue Obligations" in this Appendix A.
(o) Adjusted Net Operating Revenues, divided by the sum of State Water Contract capital costs paid from current year operations and debt service on outstanding Bonds, the subordinate lien California Safe Drinking Water Revolving Fund Loan, and additional Bonds (projected).
(p) For Fiscal Year 2012-13, includes amounts that were transferred prior to June 30, 2013: $25 million to the Water Transfer Fund, $25 million to a trust to pre-fund Metropolitan's unfunded liability for other post-employment benefits, and $25 million for PAYGO Construction. For Fiscal Year 2013-14, includes amounts transferred prior to June 30, 2014: $100 million to a trust to pre-fund Metropolitan's unfunded liability for other post-employment benefits; $100 million for PAYGO Construction, $232 million to the Water Management Fund, for water purchases to replenish storage and funding drought response programs.

MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES

Water Sales Revenues

Metropolitan relies on revenues from water sales for about 80 to 85 percent of its total revenues. In adopting the budget and rates and charges for each fiscal year, Metropolitan's board reviews the anticipated revenue requirements and projected water sales to determine the rates necessary to produce substantially the revenues to be derived from water sales during the fiscal year. Metropolitan sets rates and charges estimated to provide operating revenues sufficient, with other sources of funds, to provide for payment of its expenses. See "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

Metropolitan's Board has adopted annual increases in water rates each year beginning with the rates effective January 1, 2004. See "METROPOLITAN REVENUES—Rate Structure" and "—Classes of Water Service" in this Appendix A. On April 10, 2012, Metropolitan's Board adopted water rate increases of 5.0 percent, effective January 1, 2013 and January 1, 2014. On April 8, 2014, Metropolitan's Board adopted a

1.5 percent water rate increase, which became effective January 1, 2015, and an additional 1.5 percent water rate increase to become effective January 1, 2016.

Projections for fiscal year 2015-16, in the table above, reflect actual financial results through September 30, 2015 and revised projections for the balance of the fiscal year. The financial projections for fiscal years 2016-17 through 2019-20 reflect the ten-year financial forecast provided in the biennial budget for fiscal years 2014-15 and 2015-16 that was approved by the Board on April 8, 2014. The 2014-15 and 2015-16 biennial budget and rates set the stage for predictable and reasonable rate increases over the ten-year planning period, with rates projected to increase 3.0 percent to 5.0 percent per year. Actual rates and charges to be effective in 2017 and thereafter are subject to adoption by Metropolitan's Board as part of the biennial budget process, and the ten-year forecast will be updated as well.

Increases in rates and charges reflect increasing operations and maintenance costs due primarily to an increase in retirement-related benefit costs, higher pay-as-you-go funding levels projected for the next two fiscal years of approximately $513 million for the CIP, and increasing State Water Project costs, when compared to fiscal year 2013-14. However, projected higher levels of revenue funding for the CIP and the projected use of reserves over target were projected to reduce revenue requirements in the later years of the forecast.

Metropolitan's revenues exceeded expenses during fiscal year 2014-15, resulting in a significant increase in unrestricted reserves. On May 29, 2015, Metropolitan's Board approved the use of $160 million of unrestricted reserves over the target reserve level, $50 million from the Water Stewardship Fund, and $140 million from the Water Management Fund to fund conservation incentives. As of June 30, 2015, Metropolitan's unrestricted reserves were $476 million, on a modified accrual basis. On July 14, 2015, Metropolitan's Board approved $264 million to acquire various properties in Riverside and Imperial Counties, with $160 million funded from the Replacement and Refurbishment Fund and the remaining amount from unrestricted reserves. Unrestricted reserves, as of June 30, 2015, includes $188 million, held in Metropolitan's financial reserves, pursuant to the exchange agreement between Metropolitan and SDCWA due to SDCWA's litigation challenging Metropolitan's rate structure (see "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*" and "METROPOLITAN REVENUES—Litigation Challenging Rate Structure" in this Appendix A).

Financial projections for fiscal year 2015-16 reflect lower water sales revenues that are estimated to be $154 million below budget, based on the revised water sales projection of 1.60 million acre-feet, compared to the budgeted 1.75 million acre-feet. In addition, State Water Project OMP&R payments are projected to be $111 million above budget, which offset $97 million in lower projected State Water Project power costs, based on a 20 percent water allocation, versus the budgeted 50 percent allocation. In addition, in October 2015, Metropolitan's Board approved $44.4 million to pay SNWA to store 150,000 acre-feet of water with Metropolitan. See "—METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct—*Interim Surplus Guidelines"* in this Appendix A. The combination of lower than budgeted water sales revenue and higher than budgeted expenditures has resulted in projected fiscal year 2015-16 revenue bond debt service coverage to be 1.38x and fixed charge coverage to be 1.14x. Higher conservation spending for fiscal year 2015-16 is being funded from estimated $320 million transfers from the Water Management Fund, as reflected in the table above. The fiscal year 2015-16 CIP, currently estimated at $225 million, will be funded from bond proceeds rather than from budgeted current year PAYGO expenditures and General and R&R Fund balances.

Water Sales Projections

Water sales forecasts in the table above are: 1.60 million acre-feet for fiscal year 2015-16 and 1.75 million acre-feet, for each of fiscal years 2016-17 through 2019-20. For purposes of comparison, Metropolitan's highest water sales during the past six fiscal years was approximately 2.3 million acre-feet in fiscal year 2007-08 and lowest was 1.63 million acre-feet in fiscal year 2010-11. See "METROPOLITAN REVENUES—Water Sales Revenues" in this Appendix A.

Metropolitan's water sales projections are the result of a comprehensive retail demand, conservation, and local supply estimation process, including supply projections from member agencies and other water providers within Metropolitan's service area. Retail demands for water are estimated with a model driven by projections of relevant demographics provided by SCAG and SANDAG. Retail demands are adjusted downward for conservation savings and local supplies, with the remainder being the estimated demand for Metropolitan supplies. Conservation savings estimates include all conservation programs in place to date as well as estimates of future conservation program goals that will result from regional 20 percent reductions by 2020 conservation savings. See "METROPOLITAN'S WATER SUPPLY—Water Conservation" in this Appendix A. Local supplies include water produced by local agencies from various sources including but not limited to groundwater, surface water, locally-owned imported supplies, and recycled water (see "REGIONAL WATER RESOURCES" in this Appendix A). For example, water sales projections for 2015-16 assume that local projects such as groundwater recovery and desalination projects (see "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A) will become operational and produce local supplies in 2016. For additional description of Metropolitan's water sales projections, see "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

The water sales projections used to determine water rates and charges assume an average year hydrology. Actual water sales are likely to vary from projections. Over the eleven-year period from fiscal year 2004-05 through fiscal year 2014-15, actual water sales exceeded budgeted sales for the fiscal year in six fiscal years, with the greatest positive variance in fiscal year 2013-14 when actual sales of 2.04 million acre-feet were 120 percent of budgeted sales (1.70 million acre-feet). Actual sales were less than budgeted sales in five fiscal years, with the greatest negative variance in fiscal year 2010-11 when actual sales of 1.63 million acre-feet were 84 percent of budgeted sales (1.93 million acre-feet). In years when actual sales exceed projections, the revenues from water sales during the fiscal year will exceed budget, potentially resulting in an increase in financial reserves. In years when actual sales are less than projections, Metropolitan uses various tools to manage reductions in revenues, such as reducing expenses below budgeted levels, reducing funding of capital from revenues, and drawing on reserves. See "METROPOLITAN REVENUES—Financial Reserve Policy" in this Appendix A. Metropolitan considers actual sales, revenues and expenses, and financial reserve balances in setting rates for future fiscal years.

Operation and Maintenance Expenses

Operation and maintenance expenses in fiscal year 2014-15 were $1.05 billion, which represented approximately 66 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. As discussed in the preceding section, State Water Project OMP&R expenditures in fiscal year 2015-16 are projected to be $111 million higher than budget, due to higher costs for environmental related projects in the Delta, and higher than projected labor costs. This projected negative variance may offset a projected favorable variance for lower State Water Project power costs, due to an expected 20 percent water allocation versus a budgeted 50 percent allocation. Metropolitan expects to realize a favorable power cost variance of approximately $97 million.

Metropolitan's Board adopted a budget benchmark in September 2004 to limit the annual increase in departmental operations and maintenance budgets to no more than the five-year rolling average change in the Los Angeles/Orange/Riverside Counties consumer price index. The fiscal year 2014-15 departmental expenses of $380 million were approximately 2.7 percent higher than such expenses in fiscal year 2013-14, which, in turn, were 6.9 percent higher than fiscal year 2012-13 expenses.

POWER SOURCES AND COSTS

General

Current and future costs for electric power required for operating the pumping systems of the CRA and the State Water Project are a substantial part of Metropolitan's overall expenses. Expenses for electric power for the CRA (not including credits from power sales and related revenues) for the fiscal years 2012-13, 2013-14 and 2014-15 were approximately $18.4 million, $29.6 million, and $39.6 million, respectively. Expenses for electric power and transmission service for the State Water Project for fiscal years 2012-13, 2013-14 and 2014-15 were approximately $218.1 million, $157.4 million and $140.8 million, respectively. Given the continuing uncertainty surrounding the electricity markets in California and in the electric industry in general, Metropolitan is unable to give any assurance with respect to the magnitude of future power costs.

Colorado River Aqueduct

Generally 55 to 70 percent of the annual power requirements for pumping at full capacity (1.25 million acre-feet of Colorado River water) in Metropolitan's CRA are secured through long-term contracts with the United States Department of Energy for energy generated from facilities located on the Colorado River (Hoover Power Plant and Parker Power Plant) and Edison. These contracts provide Metropolitan with reliable and economical power resources to pump Colorado River water to Metropolitan's service area.

On December 20, 2011, President Obama signed into law the Hoover Power Allocation Act of 2011 (H.R. 470). This new law requires the Western Area Power Administration to renew existing contracts for electric energy generated at the Hoover Power Plant for an additional 50 years through September 2067. The contractors will retain 95 percent of their existing power rights. The law will allow Metropolitan to continue to receive a significant amount of power from the Hoover power plant after the current contract expires in 2017.

The remaining approximately 30 to 45 percent of annual pumping power requirements for full capacity pumping on the CRA is obtained through energy purchases from municipal and investor-owned utilities or power marketers. Gross diversions of water from Lake Havasu for the fiscal years ended June 30, 2014 and June 30, 2015 were approximately 1.12 million acre-feet and 1.19 million acre-feet, respectively, including Metropolitan's basic apportionment of Colorado River water and supplies from water transfer and storage programs.

The Metropolitan-Edison 1987 Service and Interchange Agreement includes provisions for the sharing of the benefits realized by the integrated operation of Edison's and Metropolitan's electric systems. Under this agreement, with a prior year pumping operation of 1 million acre-feet, Edison provides Metropolitan additional energy (benefit energy) sufficient to pump approximately 140,000 acre-feet annually. As the amount of pumping is increased, the amount of benefit energy provided by Edison is reduced.

Under maximum pumping conditions, Metropolitan can require up to one million megawatt-hours per year in excess of the base resources available to Metropolitan from the Hoover Power Plant, the Parker Power Plant, and Edison benefit energy. Metropolitan is a member of the Western Systems Power Pool ("WSPP"), and utilizes its industry standard form contract to make wholesale power purchases at market cost. Metropolitan acquires the majority of its supplemental power from WSPP members. In calendar years 2010 and 2011, Metropolitan purchased 755,000 megawatt- hours and 100,000 megawatt-hours, respectively, of energy above its base power resources. In calendar year 2013, Metropolitan pumped approximately 1.013 million acre-feet of its Colorado River water and additional supplies from other Colorado River sources but did not purchase any additional energy supplies above its base power resources. In calendar year 2014, Metropolitan purchased approximately 527,000 megawatt-hours of additional energy.

State Water Project

The State Water Project's power requirements are met from a diverse mix of resources, including State-owned hydroelectric generating facilities. DWR has long-term contracts with Morgan Stanley (unspecified energy sources), Metropolitan (hydropower), Kern River Conservation District (hydropower) and the Northern California Power Agency (natural gas generation). The remainder of its power needs is met by short-term purchases. Metropolitan pays approximately 70 percent of State Water Project power costs.

DWR is seeking renewal of the license issued by FERC for the State Water Project's Hyatt-Thermalito hydroelectric generating facilities at Lake Oroville. A Settlement Agreement containing recommended conditions for the new license was submitted to FERC in March 2006. That agreement was signed by over 50 stakeholders, including Metropolitan and other State Water Project Contractors. With only a few minor modifications, FERC staff recommended that the Settlement Agreement be adopted as the condition for the new license. DWR issued a Final EIR for the relicensing project on July 22, 2008. On August 21, 2008, Butte County and Plumas County filed separate lawsuits against DWR challenging the adequacy of the Final EIR. This lawsuit also named all of the signatories to the Settlement Agreement as "real parties in interest," since they could be adversely affected by this litigation. A trial was conducted in January 2012. On May 16, 2012, the court found that the EIR prepared in conjunction with the relicensing was adequate and dismissed the lawsuit against DWR. On August 7, 2012, Butte and Plumas Counties filed a notice of appeal. Briefing on the appeal was completed in May 2013. No date has been set for oral argument. Regulatory permits and authorizations are required before the new license can take effect. Chief among these is a biological opinion from the National Marine Fisheries Service setting forth the terms and conditions under which the relicensing project must operate in order to avoid adverse impacts to threatened and endangered species. DWR has filed an application requesting this biological opinion. FERC has issued one-year renewals of the existing license since its initial expiration date on January 31, 2007, and is expected to issue successive one-year renewals until a new license is obtained.

DWR receives transmission service from investor-owned utilities under existing contracts and from the California Independent System Operator, a nonprofit public benefit corporation formed in 1996 pursuant to legislation that restructured and deregulated the electric utility industry in California. The transmission service provider may seek increased transmission rates, subject to the approval of FERC. DWR has the right to contest any such proposed increase. DWR may be subject to increases in the cost of transmission service as new electric grid facilities are constructed.

Energy Management Program

Metropolitan's Board adopted energy management policies in August 2010 that provide objectives for future energy-related projects to contain costs and reduce Metropolitan's exposure to energy price volatility, increase operational reliability through renewable energy projects, provide a revenue stream to offset energy costs and move Metropolitan toward energy independence. Metropolitan's Energy Management Program includes: setting design standards for energy-efficient facilities; taking advantage of available rebates for energy efficiency and energy-saving projects; operating Metropolitan's facilities in the most energy-efficient manner; and continuing to investigate alternative energy sources, such as solar, small hydroelectric generation and wind power. Metropolitan has completed construction of a one-megawatt ("MW") solar generation facility at the Robert A. Skinner Treatment Plant and is constructing a three MW solar facility at its F. E. Weymouth Treatment Plant. Metropolitan also plans to install a one MW solar facility at the Joseph Jensen Treatment Plant. Finally, Metropolitan continues integrating fuel-efficient hybrid vehicles into its fleet and is assessing the use of alternative fuels for its off-road vehicles and construction equipment.

Metropolitan reports its greenhouse gas emissions to The Climate Registry, a nonprofit North American emission registry. Metropolitan also reports required emissions data to the California Air Resources Board ("CARB") under mandatory reporting regulations adopted pursuant to AB 32, California's Global Warming Solutions Act of 2006. On October 20, 2011, CARB approved a regulation for a California cap on greenhouse gas emissions under AB 32, with compliance deferred to 2013. Under the regulation, Metropolitan is regulated as an importer of energy and is required to purchase allowances to cover any greenhouse gas emissions associated with its supplemental imported energy. Metropolitan did not incur cap and trade allowance obligations in 2013. However, Metropolitan did incur an obligation in 2014 and 2015. For the three-year period from January 1, 2013 through December 31, 2015, Metropolitan's expenditures on cap and trade compliance instruments, such as allowances and offsets, are expected to be approximately $3.3 million.

APPENDIX B

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 (UNAUDITED).

The financial and statistical information contained in this Appendix B is included herein for informational purposes only. The Basic Financial Statements for the three months ended September 30, 2015 and 2014 (Unaudited) remain subject to amendment and revision. The source for the information herein is Metropolitan unless otherwise stated.

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Basic Financial Statements

Years ended June 30, 2015 and 2014

(With Independent Auditor's Report Thereon)

MGO Certified Public Accountants

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June 30, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The 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 fiscal years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Metropolitan's basic financial statements 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 accounting principles generally accepted in the United States of America; 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.

Auditor's 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 auditor's 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 the Metropolitan Water District of Southern California as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1p to the basic financial statements, effective July 1, 2014, Metropolitan adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

As discussed in Note 15 to the basic financial statements, on November 18, 2015, the Superior Court of California, County of San Francisco, issued the Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. The decision finds in favor of SDWCA and that SDCWA is entitled to damages in the amount of $188,295,602. In addition, the trial court granted SDCWA's motion for prejudgment interest award of 10% on these damages through the end of September 2015 in the amount of $44,139,469. On November 19, 2015, Metropolitan filed a Notice of Appeal of the Judgment and Writ in each case. As an estimated liability is indeterminable at this time, no amounts have been presently recorded in the financial statements related to this matter. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and information related to the pension and other postemployment benefits plans on pages 3-16 and 78-80, respectively, 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.

Macias Gini & O'Connell LLP

Newport Beach, California
October 19, 2015, except for the third paragraph of Note 15, as to which the date is November 19, 2015

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, 2015 and 2014. 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 generally accepted accounting principles 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 costs and principal and interest payments on borrowed money. Certain amounts reported in fiscal years 2014 and 2013 have been reclassified to conform to the fiscal year 2015 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2015, Metropolitan implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pension - an amendment of GASB Statement No. 27*, which addresses the accounting and financial reporting for pensions. Metropolitan also implemented Governmental Accounting Standards Board Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which resolves transition issues in GASB 68. Metropolitan did not restate the financial statements for the fiscal years ended June 30, 2014 and 2013 because the necessary actuarial information from the California Public Employees' Retirement System was not provided for the prior years presented. As of July 1, 2014, Metropolitan restated beginning net position in the amount of $491.0 million to record the beginning deferred pension contributions and net pension liability.

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

	June 30,		
(Dollars in millions)	**2015** As Adjusted [1]	2014	2013
Assets and deferred outflows of resources			
Capital assets, net	**$ 10,098.1**	$ 10,104.6	$ 10,081.4
Other assets and deferred outflows of resources	**2,388.0**	2,362.7	2,229.2
Total assets and deferred outflows of resources	**12,486.1**	12,467.3	12,310.6
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	**4,950.9**	4,767.1	4,989.2
Current liabilities and deferred inflows of resources	**653.5**	499.2	521.2
Total liabilities and deferred inflows of resources	**5,604.4**	5,266.3	5,510.4
Net position			
Net investment in capital assets, including State Water Project costs	**5,700.8**	5,593.0	5,399.5
Restricted	**442.0**	319.3	375.3
Unrestricted	**738.9**	1,288.7	1,025.4
Total net position	**$ 6,881.7**	$ 7,201.0	$ 6,800.2

[1] *Related to the adoption of GASB 68 and GASB 71.*

Capital Assets, Net

Net capital assets include plant, participation rights, and construction work in progress, net of accumulated depreciation and amortization.

Fiscal Year 2015 Compared to 2014. At June 30, 2015, net capital assets totaled $10.1 billion, or 80.9 percent, of total assets and deferred outflows of resources, and were $6.5 million lower than the prior year. In fiscal year 2015, Metropolitan reassessed the useful lives of its plant assets and determined that the future benefit of certain assets was less than previously expected therefore the carrying value of the assets were adjusted resulting in additional depreciation expense of $104.4 million. This net decrease represents Metropolitan's continued expenditures on the capital investment plan (CIP) and net capital payments for participation rights in the State Water Project, offset by depreciation and amortization. CIP expenditures during fiscal year 2015 totaled $221.7 million (including $22.5 million of capitalized interest) and are described in the capital assets section below.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, net capital assets totaled $10.1 billion, or 81.0 percent, of total assets and deferred outflows of resources, and were $23.2 million higher than the prior year. This net increase represents Metropolitan's continued expenditures on the capital investment plan (CIP) and net capital payments for participation rights in the State Water Project, partially offset by depreciation and amortization. CIP expenditures during fiscal year 2014 totaled $196.1 million (including $20.2 million of capitalized interest) and are described in the capital assets section below.

Other Assets and Deferred Outflows of Resources

Other assets and deferred outflows of resources include accounts receivable, inventories, prepaid costs, deferred outflows related to loss on bond refundings and swap terminations, deferred outflows for pension contributions, deferred outflows for effective interest rate swaps, and cash and investments.

Fiscal Year 2015 Compared to 2014. At June 30, 2015, other assets and deferred outflows totaled $2.4 billion and were $25.3 million higher than the prior year. Included in the increase were $108.4 million of higher cash and investments and $34.3 million of deferred outflows for pension contribution due to the implementation of GASB 68 and GASB 71. These increases were offset by $65.2 million of lower water sales receivable as fiscal year 2015 May and June sales were 81.9 thousand acre-feet (TAF) less than the prior year's comparable months. In addition, water inventory decreased by $27.8 million and deferred water costs decreased by $26.5 million due to a reduction in water storage of 312.6 TAF.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, other assets and deferred outflows totaled $2.4 billion and were $133.5 million higher than the prior year. Cash and investments increased $195.8 million primarily due to $182.6 million of additional cash collected from higher water sales over the prior year. The increase in water sales reflected $107.7 million of higher volumes sold and $74.9 million related to higher prices. This increase was partially offset by $32.6 million of lower prepaid costs as 201.7 TAF, or $25.0 million, of stored water was drawn down due to the ongoing drought and a low State Water Project allocation. In addition, deferred outflows of effective swaps were $25.7 million lower due to a $26.3 million decrease related to an early termination of swaps.

Long-term Liabilities, Net of Current Portion

Long-term liabilities, net of current portion include long-term debt, customer deposits and trust funds, net pension liability, postemployment benefits other than pensions (OPEB), accrued compensated absences, obligations for off-aqueduct facilities, workers' compensation and third party claims, fair value of interest rate swaps, and other long-term obligations.

Fiscal Year 2015 Compared to 2014. At June 30, 2015, long-term liabilities, net of current portion, totaled $5.0 billion and were $183.8 million higher than the prior year. The implementation of GASB 68 resulted in the first time recording of a $406.8 million net pension liability. Offsetting this new liability was $160.1 million reduction in long-term debt primarily due to scheduled principal payments of $120.6 million and a $15.7 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded. In addition, OPEB was $51.8 million lower than the prior year primarily due to $50 million of additional pre-funding approved by the Board in fiscal year 2014 and a $15.0 million decrease in fair value of interest rate swaps due to an increase in the fair value of swaps. See the long-term debt section below for additional information.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, long-term liabilities, net of current portion, totaled $4.8 billion and were $222.1 million lower than the prior year. The total reduction in long-term debt of $154.9 million was primarily due to principal pay down resulting from regular maturities of $156.1 million and $55.8 million related to bond refundings, as the new debt issued was less than the amount of debt refunded. These decreases include the reduction in the current portion of long-term debt as discussed below. In addition, OPEB decreased $61.0 million primarily due to $90.0 million of fiscal years 2014 and 2013 board-approved contributions deposited into an irrevocable trust established in September 2013. See the long-term debt section below for additional information.

Current Liabilities and Deferred Inflows of Resources

Current liabilities and deferred inflows of resources represent current liabilities that are due within one year and deferred inflows on earnings on pension plan investments. Current liabilities include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

Fiscal Year 2015 Compared to 2014. At June 30, 2015, current liabilities and deferred inflows of resources totaled $653.5 million, and were $154.3 million higher than the prior year. Included in the increase were $109.2 million of deferred inflows of resources, which represents the net difference between projected and actual earnings on pension plan investments that will be amortized as a component of pension expense over the remaining 4 years. In addition, accounts payable and accrued expenses increased as follows: $12.2 million more of various vendor costs, $9.3 million higher State Water Project costs, and $7.4 million more of conservation credits due to customers.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, current liabilities totaled $499.2 million, and were $22.0 million lower than the prior year. Included in the decrease was $66.9 million less in current portion of long-term debt. Due to bond refundings, $31.6 million of July 1, 2014 principal payments were paid in May 2014 and $20.2 million of debt was eliminated as the new debt issued was less than the debt refunded. Partially offsetting this decrease was $51.1 million more of accounts payable and accrued expenses primarily due to a $35.9 million increase in operating and maintenance costs on the State Water Project.

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 State Water Project, offset by debt issued for these purposes.

Fiscal Year 2015 Compared to 2014. At June 30, 2015, net investment in capital assets, including State Water Project costs totaled $5.7 billion and was $107.8 million more than the prior year primarily due to the reduction in outstanding debt.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, net investment in capital assets, including State Water Project costs totaled $5.6 billion and was $193.5 million more than the prior year primarily due to the reduction in outstanding debt.

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 2015 Compared to 2014. At June 30, 2015, restricted net position totaled $442.0 million which was $122.7 million higher than fiscal year 2014. Included in the increase was $91.6 million of higher restricted for debt service primarily due to increased bond interest, principal and reserve requirements as a result of bond refunding transactions during the year. In addition, restricted for other was $31.1 million more than the prior year primarily due to $20.3 million of State Water Project variable power costs payments for July and August of 2015 that were not required in 2014 due to the low water supply allocation.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, restricted net position totaled $319.3 million which was $56.0 million lower than fiscal year 2013. Included in the decrease was $30.1 million of lower restricted for debt service primarily due to lower bond interest, principal and reserve requirements as a result of bond refunding transactions during the year. In addition, restricted for other was $22.5 million less than the prior year due to the low water supply allocation that resulted in no required State Water Project variable power costs payments for July and August of 2014.

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 2015 Compared to 2014. Unrestricted net position of $738.9 million decreased $549.8 million from the prior year. In 2015, Metropolitan implemented GASB 68, which resulted in the recording of $406.8 million of net pension liability and deferred inflows of resources of $109.2 million. Partially offsetting this decrease is fiscal year 2015 net income before contributions of $169.4 million.

Fiscal Year 2014 Compared to 2013. Unrestricted net position of $1,288.7 million increased $263.3 million from the prior year primarily due to fiscal year 2014 income before capital contributions of $398.6 million.

CHANGES IN NET POSITION

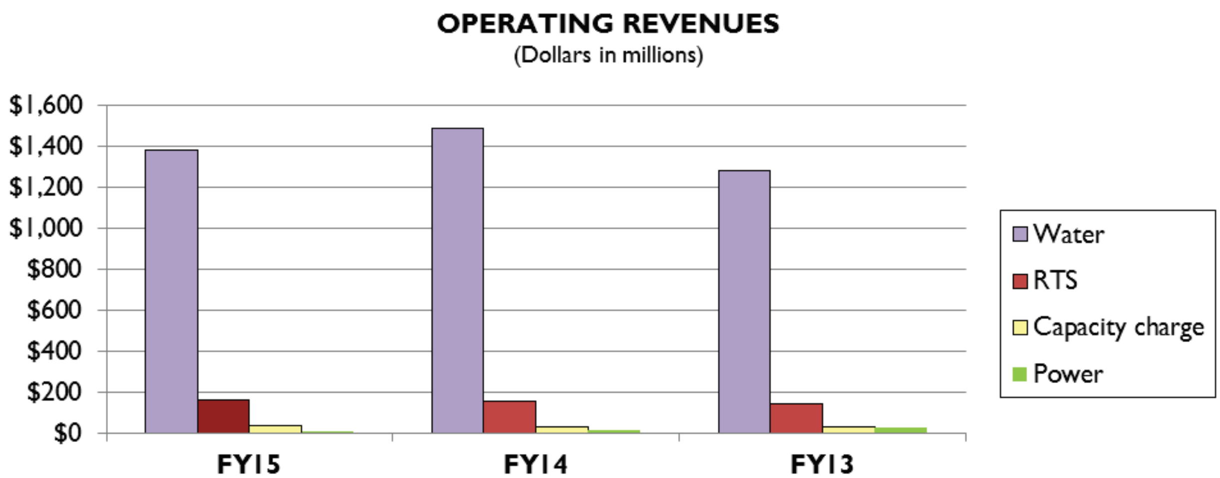
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	Fiscal Year Ended June 30,		
	2015	2014	2013
(Dollars in millions)	As Adjusted [1]		
Water sales	**$ 1,382.9**	$ 1,484.6	$ 1,282.5
Readiness-to-serve charges	**162.0**	154.0	144.0
Capacity charge	**37.5**	28.5	28.7
Power sales	**8.4**	14.6	24.5
Operating revenues	**1,590.8**	1,681.7	1,479.7
Taxes, net	**102.3**	94.5	94.8
Investment income (loss)	**(3.6)**	5.7	(0.4)
Other, net	**5.4**	—	6.1
Nonoperating revenues	**104.1**	100.2	100.5
Total revenues	**1,694.9**	1,781.9	1,580.2
Power and water costs	**(473.6)**	(510.1)	(371.3)
Operations and maintenance	**(543.4)**	(439.7)	(419.8)
Depreciation and amortization	**(374.8)**	(261.5)	(265.4)
Operating expenses	**(1,391.8)**	(1,211.3)	(1,056.5)
Bond interest, net of amount capitalized	**(132.5)**	(146.7)	(150.2)
Other, net	**(1.2)**	(25.3)	(2.1)
Nonoperating expenses	**(133.7)**	(172.0)	(152.3)
Total expenses	**(1,525.5)**	(1,383.3)	(1,208.8)
Income before contributions	**169.4**	398.6	371.4
Contributed capital	**2.3**	2.2	1.7
Changes in net position	**171.7**	400.8	373.1
Net position			
Beginning of year, as previously reported	**7,201.0**	6,800.2	6,427.1
Cumulative effect of change in accounting principle	**(491.0)**	—	—
Beginning of year, as restated	**6,710.0**	6,800.2	6,427.1
Net position, end of year	**$ 6,881.7**	$ 7,201.0	$ 6,800.2

[1] *Related to the adoption of GASB 68 and GASB 71.*

Operating Revenues

Metropolitan's principal source of revenue is from water sales, 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.



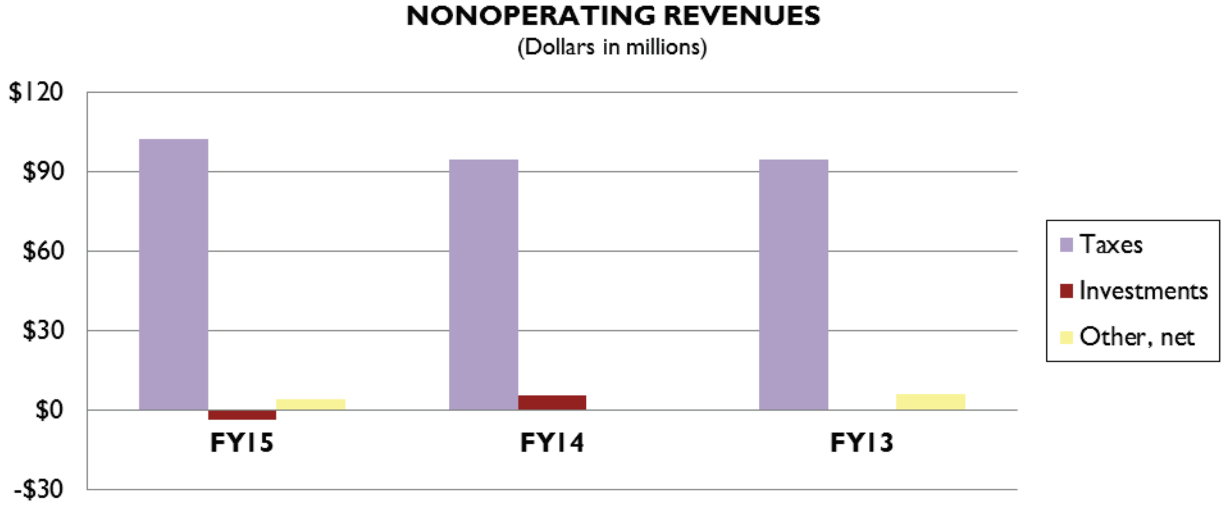
Analytical Review of Operating Revenues

Fiscal Year 2015 Compared to 2014. Fiscal year 2015 operating revenues were $1.6 billion or $90.9 million less than the prior year primarily due to $101.7 million of lower water sales, of which $110.8 million related to 139.1 TAF of lower volumes sold offset by $9.1 million from higher rates.

Fiscal Year 2014 Compared to 2013. Fiscal year 2014 operating revenues were $1.7 billion or $202.0 million more than the prior year primarily due to $202.2 million of higher water sales, of which $138.9 million related to 182.1 TAF of additional volumes sold and $63.3 million from higher rates.

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.



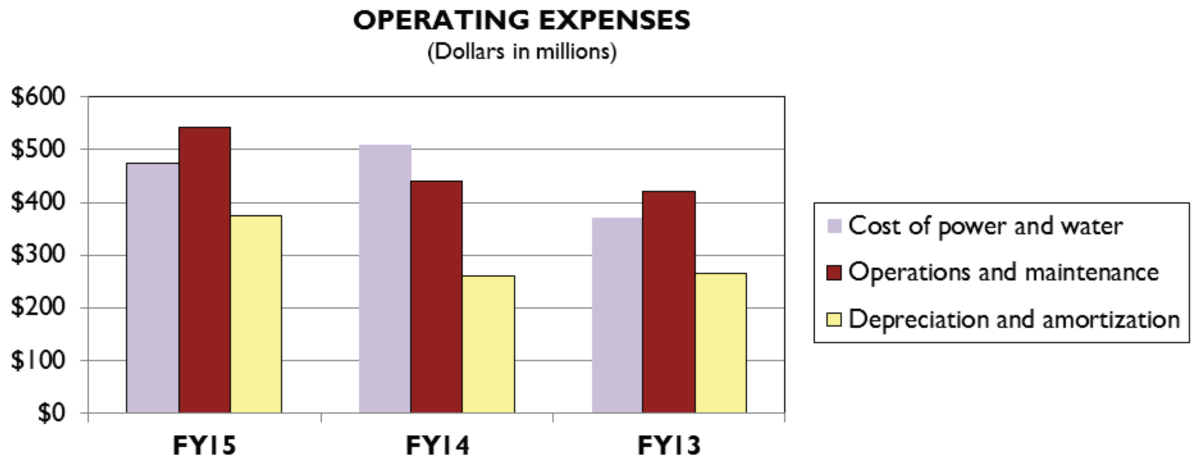
Analytical Review of Nonoperating Revenues

Fiscal Year 2015 Compared to 2014. Nonoperating revenues for fiscal year 2015 totaled $104.1 million and were $3.9 million higher than the prior year. Included in the increase was $7.8 million of higher property tax revenue from the collection of delinquent taxes. In addition, other, net was $5.4 million more primarily due to $2.1 million of new annexations that were completed in fiscal year 2015. Partially offsetting these increases was $9.3 million of lower investment income primarily due to an unfavorable fair value adjustment.

Fiscal Year 2014 Compared to 2013. Nonoperating revenues for fiscal year 2014 totaled $100.2 million and were $300,000 lower than the prior year.

Operating Expenses

Operating expenses fall into three primary cost areas: power and water, operations and maintenance, and depreciation and amortization.



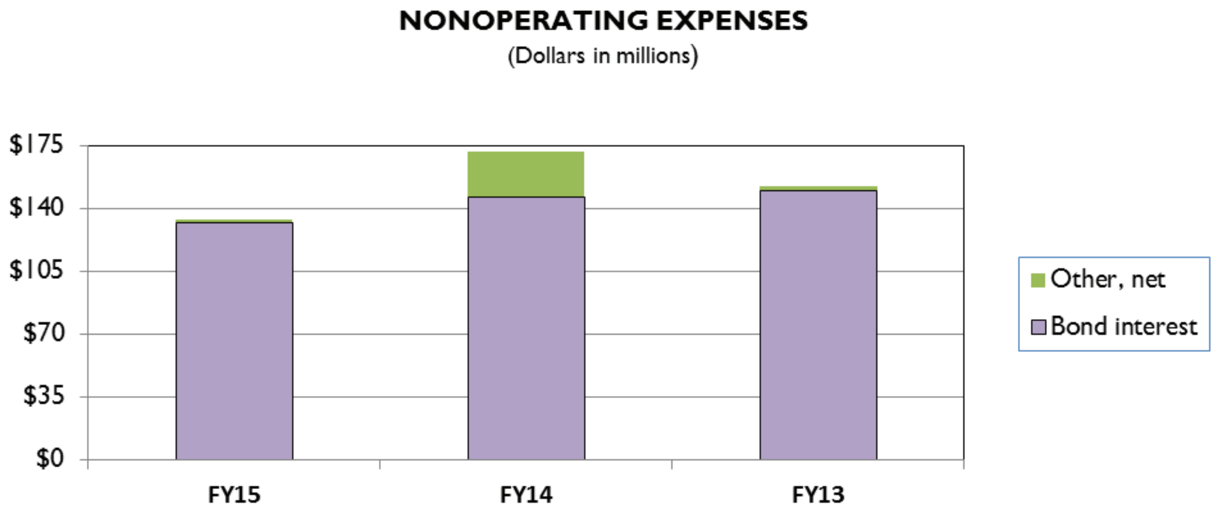
Analytical Review of Operating Expenses

Fiscal Year 2015 Compared to 2014. Fiscal year 2015 operating expenses of $1.4 billion were $180.5 million higher than prior year. The increase included $113.3 million of higher depreciation and amortization expense as a result of Metropolitan reassessing the useful lives of its plant assets and determining that the future benefit was less than previously expected. In addition, operations and maintenance costs increased $103.7 million primarily due to $118.0 million higher conservation credits expenses as a result of the Board approving a historic $450.0 million budget for conservation spending in response to the continued drought.

Fiscal Year 2014 Compared to 2013. Fiscal year 2014 operating expenses of $1.2 billion were $154.8 million higher than prior year operating expenses primarily due to $138.8 million of higher power and water costs resulting from increased water sales of 182.1 TAF from fiscal year 2013.

Nonoperating Expenses

The primary source of nonoperating expenses is interest expense on bonds and other, net.



Analytical Review of Nonoperating Expenses

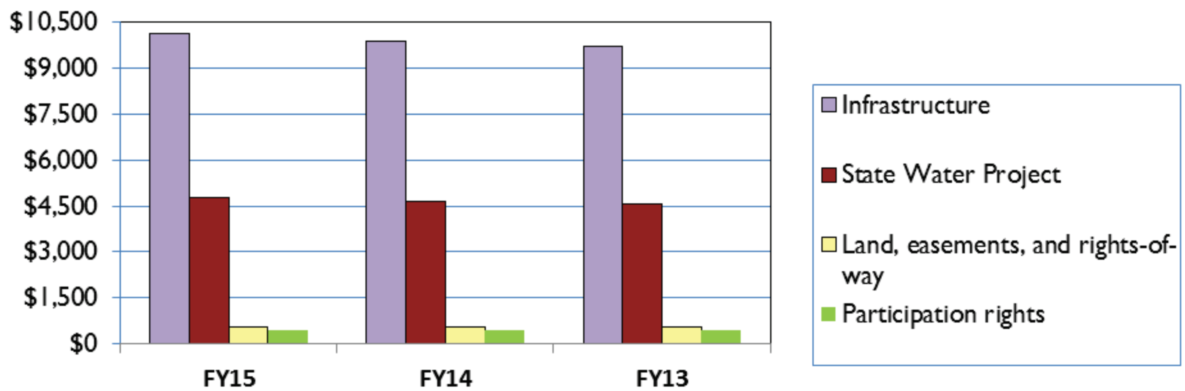
Fiscal Year 2015 Compared to 2014. Fiscal year 2015 nonoperating expenses of $133.7 million were $38.3 million lower than the prior year. Included in the decrease was $22.9 million of construction in progress write-off in fiscal year 2014 (noted below) that did not occur in the current year. In addition, interest expense on bonds decreased primarily due to bond refunding transactions to take advantage of lower interest rates.

Fiscal Year 2014 Compared to 2013. Fiscal year 2014 nonoperating expenses of $172.0 million were $19.7 million higher than the prior year. The increase was primarily due to $23.7 million of other, net of which $22.9 million related to the write-off of construction in progress programs upon determination by the Engineering Services Group that no operational asset would result from the costs incurred.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets include Metropolitan's water infrastructure, land and buildings, as well as participation rights in State Water Project and various other water programs.

GROSS CAPITAL ASSETS
(Dollars in millions)



Schedule of Capital Assets

	June 30,		
(Dollars in millions)	**2015**	2014	2013
Land, easements and rights-of-way	**$ 557.6**	$ 554.6	$ 555.7
Construction in progress	**1,644.9**	1,631.9	1,531.3
Parker power plant and dam	**13.0**	13.0	13.0
Power recovery plants	**178.7**	178.7	177.1
Other dams and reservoirs	**1,440.1**	1,435.8	1,435.8
Water transportation facilities	**3,491.9**	3,364.1	3,329.0
Pumping plants and facilities	**240.7**	240.5	229.8
Treatment plants and facilities	**2,127.8**	2,059.3	2,038.0
Other plant assets	**941.8**	931.4	923.3
Pre-operating expenses original aqueduct	**44.6**	44.6	44.6
Participation rights in State Water Project	**4,794.9**	4,670.6	4,565.0
Participation rights in other facilities	**461.9**	456.1	456.1
Gross capital assets	**15,937.9**	15,580.6	15,298.7
Less accumulated depreciation and amortization	**(5,839.8)**	(5,476.0)	(5,217.3)
Capital assets, net	**$ 10,098.1**	$ 10,104.6	$ 10,081.4
Net increase from prior year	**$ (6.5)**	$ 23.2	$ 5.0
Percent change	**(0.1%)**	0.2%	0.0%

Fiscal Year 2015 Compared to 2014. Net capital assets totaled approximately $10.1 billion and decreased $6.5 million over the prior year primarily due to $363.8 million increase in accumulated depreciation and amortization offset by the $221.7 million of new construction activity and a net increase of $124.3 million in participation rights in State Water Project.

The major capital asset additions for the current year, excluding capitalized interest, included:

- $52.4 million for the oxidation retrofit program at the filtration plants; this program is designed to reduce the level of disinfection byproducts in the treated water supplied by these plants in order to meet state and federal standards.
- $48.9 million for the improvements in infrastructure reliability at the treatment plants.
- $29.3 million for the distribution system's rehabilitation program.
- $16.7 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 State Water Project delivery constraints.
- $14.7 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to insure long-term reliability of Metropolitan's PCCP lines water delivery.
- $10.8 million for chlorine containment and handling facilities program which is designed to enhance hazardous chemical safety, prevent a chlorine chemical release, and comply with security and safety regulations.
- $10.6 million for the information technology program which is designed to ensure the reliability and efficiency of the information technology infrastructure in support of Metropolitan's operational and business applications.

Metropolitan's fiscal year 2016 capital budget includes plans to spend $267.9 million principally for the water treatment plants improvements program, the distribution system and rehabilitation projects, the water quality/oxidation retrofit program, the supply reliability and system expansion program, and the Colorado River Aqueduct reliability and containment programs.

Fiscal Year 2014 Compared to 2013. Net capital assets totaled approximately $10.1 billion and increased $23.2 million over the prior year primarily due to $196.1 million of new construction activity and a net increase of $105.6 million in participation rights in State Water Project, partially offset by increased accumulated depreciation and amortization of $258.7 million.

The major capital asset additions for the current year, excluding capitalized interest, included:

- $54.0 million for the oxidation retrofit program.
- $39.0 million for the improvements in infrastructure reliability at the treatment plants.
- $18.7 million for the distribution system's rehabilitation program.
- $12.4 million to modernize the machine, coatings, and fabrication shops at the La Verne facility.
- $11.8 million for the Colorado River Aqueduct (CRA) reliability and containment programs.

LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

	June 30,		
(Dollars in millions)	**2015**	2014	2013
General obligation bonds *(a)*	**$ 110.4**	$ 132.3	$ 165.1
Revenue bonds *(a)*	**4,157.1**	4,271.5	4,450.6
State revolving loan	**10.7**	11.7	12.2
Other, net *(b)*	**200.0**	200.9	210.3
	$ 4,478.2	$ 4,616.4	$ 4,838.2
Decrease from prior year	**$ (138.2)**	$ (221.8)	$ (172.8)
Percent change	**(3.0%)**	(4.6%)	(3.4%)

(a) Includes refunding bonds.
(b) Consists of unamortized bond discounts and premiums.

Fiscal Year 2015 Compared to 2014. At June 30, 2015, there was $4.5 billion of outstanding bonds and other long-term obligations, a net decrease of $138.2 million or 3.0 percent from the prior year. The decrease was primarily due to scheduled principal payments and principal reduction related to refunding transactions.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, there was $4.6 billion of outstanding bonds and other long-term obligations, a net decrease of $221.8 million or 4.6 percent from the prior year. The decrease was primarily due to the pay down of bond principal and refunding transactions.

CREDIT RATINGS

Metropolitan's credit ratings at June 30, 2015, are shown below.

	Moody's Investors Service	Standard & Poor's	Fitch Ratings
General obligation bonds	Aaa	AAA	AAA
Water revenue bonds-fixed rate	Aa1	AAA	AA+
Water revenue bonds-variable rate	VMIG 1	A-1+	F1+

CURRENTLY KNOWN FACTS

California is currently facing one of the most severe droughts on record. Although it is not possible to forecast the impact of the current drought on Metropolitan water supplies or financial position, Metropolitan is prepared to meet water demands in its service area through calendar year 2016 using a combination of State Water Project and CRA deliveries, storage reserves and supplemental water transfers and purchases.

Since its two principal sources of supply draw from two different watersheds, Metropolitan has been able to utilize supplies from the Colorado River to offset reductions from the State Water Project, thereby buffering impacts of the drought thus far. To offset potentially low State Water Project supply allocations in 2016, Metropolitan plans to continue its use of Colorado River Aqueduct deliveries, storage reserves and supplemental water transfers and purchases to meet regional demands in 2016. In addition, the extraordinary operations in place since 2014, to move Colorado River supplies throughout the distribution system, will continue and Metropolitan will continue to aggressively pursue conservation into 2016. Conservation efforts to date have helped reduce demands in 2015 such that higher storage levels are anticipated by the close of calendar year 2015 bolstering available supplies for use in 2016. Metropolitan also relies upon its Water Surplus and Drought Management Plan to identify resource actions in times of shortage and its Water Supply Allocation Plan for equitable distribution of available water supplies in case of extreme shortages. In 2015, Metropolitan's Board declared the implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level for the allocation year, effective July 1, 2015 through June 30, 2016.

Finally, in 2015, Metropolitan's board increased funding for water conservation incentive programs, particularly the turf replacement program, by $350 million for total funding of $450 million over fiscal years 2015 and 2016.

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STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30, 2015 As Adjusted Note 1q	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and investments, at fair value (Notes 1b and 3):		
Unrestricted (cost: $802,461 and $631,593 for 2015 and 2014, respectively)	**$ 803,532**	$ 632,137
Restricted (cost: $392,486 and $333,592 for 2015 and 2014, respectively)	**393,010**	333,879
Total cash and investments	**1,196,542**	966,016
Receivables:		
Water sales	**223,397**	288,556
Interest on investments	**4,343**	3,999
Other, net (Note 1e)	**43,337**	15,389
Total receivables	**271,077**	307,944
Inventories (Note 1f)	**69,043**	97,140
Deposits, prepaid costs, and other (Note 11)	**2,839**	2,565
Total current assets	**1,539,501**	1,373,665
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1b and 3):		
Unrestricted (cost: $268,947 and $380,316 for 2015 and 2014, respectively)	**269,306**	380,643
Restricted (cost: $152,956 and $160,882 for 2015 and 2014, respectively)	**159,297**	170,061
Total cash and investments	**428,603**	550,704
Capital assets (Note 2):		
Plant and equipment - non depreciable (Notes 1g and 9g)	**2,202,531**	2,186,485
Plant and equipment - depreciable (Notes 1g and 9g)	**8,478,552**	8,267,398
Participation rights in State Water Project (Notes 1h and 10)	**4,794,958**	4,670,585
Participation rights in other facilities (Notes 1h and 4)	**461,909**	456,109
Total capital assets	**15,937,950**	15,580,577
Less accumulated depreciation and amortization	**(5,839,828)**	(5,475,974)
Total capital assets, net	**10,098,122**	10,104,603
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 11)	**241,542**	264,557
Total other assets	**241,542**	264,557
Total noncurrent assets	**10,768,267**	10,919,864
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1p)	**89,685**	99,787
Loss on swap terminations (Note 1p)	**38,626**	43,316
Pension contributions (Note 1q)	**34,306**	—
Effective swaps (Note 1p)	**15,686**	30,679
Total deferred outflows of resources	**178,303**	173,782
Total Assets and Deferred Outflows of Resources	**$ 12,486,071**	$ 12,467,311

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30, 2015 As Adjusted Note 1q	2014
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued expenses (Note 1i)	**$ 185,542**	$ 155,430
Current portion of long-term debt (Notes 5 and 6)	**228,103**	206,173
Current portion of obligations for off-aqueduct power facilities (Notes 6 and 9f)	**3,276**	4,062
Current portion of accrued compensated absences (Notes 1j and 6)	**22,100**	21,600
Current portion of customer deposits and trust funds (Note 6)	**11,128**	14,743
Current portion of workers' compensation and third party claims (Notes 6 and 14)	**9,500**	15,500
Current portion of other long-term obligations (Note 6)	**1,883**	643
Accrued bond interest	**80,904**	79,272
Matured bonds and coupons not presented for payment	**1,858**	1,859
Total current liabilities	**544,294**	499,282
Noncurrent Liabilities (Note 6):		
Long-term debt, net of current portion (Note 5)	**4,250,134**	4,410,213
Obligations for off-aqueduct power facilities, net of current portion (Note 9f)	**14,717**	18,170
Accrued compensated absences, net of current portion (Note 1j)	**24,364**	24,802
Customer deposits and trust funds, net of current portion	**78,377**	66,550
Net pension liability (Note 7)	**406,794**	—
Postemployment benefits other than pensions (Note 8)	**83,514**	135,323
Workers' compensation and third party claims, net of current portion (Note 14)	**10,298**	11,852
Fair value of interest rate swaps (Note 5f)	**80,513**	95,505
Other long-term obligations, net of current portion	**2,226**	4,650
Total noncurrent liabilities	**4,950,937**	4,767,065
Total liabilities	**5,495,231**	5,266,347
Commitments and Contingencies (Note 9)	**—**	—
Deferred Inflows of Resources:		
Net difference between projected and actual earnings on plan investments	**109,220**	—
Net Position (Note 13):		
Net investment in capital assets, including State Water Project costs	**5,700,796**	5,592,973
Restricted for:		
Debt service	**263,137**	171,595
Other	**178,782**	147,683
Unrestricted	**738,905**	1,288,713
Total net position	**6,881,620**	7,200,964
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 12,486,071**	$ 12,467,311

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Fiscal Year Ended June 30, 2015 As Adjusted Note 1q	2014
Operating Revenues (Note 1c):		
Water sales	**$ 1,382,898**	$ 1,484,617
Readiness-to-serve charges	**161,992**	154,000
Capacity charge	**37,473**	28,443
Power sales	**8,455**	14,625
Total operating revenues	**1,590,818**	1,681,685
Operating Expenses:		
Power and water costs	**473,569**	510,090
Operations and maintenance	**543,419**	439,667
Total operating expenses	**1,016,988**	949,757
Operating income before depreciation and amortization	**573,830**	731,928
Less depreciation and amortization (Note 2)	**(374,826)**	(261,516)
Operating income	**199,004**	470,412
Nonoperating Revenues (Expenses) (Note 1m):		
Taxes, net (Note 1d)	**102,305**	94,562
Bond interest, net of $22,500 and $20,200 of interest capitalized in fiscal years 2015 and 2014, respectively (Note 1g)	**(132,503)**	(146,689)
Investment income (loss), net	**(3,601)**	5,668
Other, net	**4,176**	(25,345)
Total nonoperating expenses, net	**(29,623)**	(71,804)
Income before Contributions	**169,381**	398,608
Capital contributions (Note 1l)	**2,305**	2,176
Changes in net position	**171,686**	400,784
Net Position		
Beginning of year, as previously reported	**7,200,964**	6,800,180
Less: Cumulative effect of change in accounting principle (Note 1q)	**(491,030)**	—
Beginning of year, as restated	**6,709,934**	6,800,180
Net position, End of Year	**$ 6,881,620**	$ 7,200,964

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

		Fiscal Year Ended June 30,	
(Dollars in thousands)		**2015**	2014
Cash Flows from Operating Activities:			
Cash received from water sales	**$**	**1,369,800**	$ 1,367,602
Cash received from readiness-to-serve charges		**163,271**	151,909
Cash received from capacity charge		**36,795**	27,909
Cash received from power sales		**8,321**	15,212
Cash received from exchange transactions		**78,954**	87,669
Cash paid for operating and maintenance expenses		**(368,987)**	(239,217)
Cash paid to employees for services		**(228,820)**	(241,100)
Cash paid for power and water costs		**(418,302)**	(399,707)
Other cash flows for operating activities		**(4,156)**	(13,282)
Net cash provided by operating activities		**636,876**	756,995
Cash Flows from Noncapital Financing Activities:			
Proceeds from other collections		**6,899**	5,609
SWAP termination payment		**(16,954)**	(15,488)
Net cash used by noncapital financing activities		**(10,055)**	(9,879)
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets		**(210,903)**	(188,024)
Payments for State Water Project costs		**(127,434)**	(106,568)
Payments for participation rights in other facilities		**(5,800)**	—
Proceeds from long-term debt		**16,954**	15,488
Payments for bond issuance costs		**(2,663)**	(3,160)
Proceeds from capital grants		**546**	64
Principal paid on long-term debt		**(120,555)**	(187,715)
Interest paid on long-term debt		**(169,136)**	(182,879)
Payments for other long-term obligations		**(6,562)**	(10,955)
Proceeds from tax levy		**103,007**	98,419
Transfer to escrow trust accounts		**(8,912)**	(8,720)
Payment of rebatable arbitrage		—	(22)
Collection of notes receivable - land sales		**139**	139
Net cash used by capital and related financing activities		**(531,319)**	(573,933)
Cash Flows from Investing Activities:			
Purchase of investment securities		**(8,685,168)**	(7,340,245)
Proceeds from sales and maturities of investment securities		**8,573,934**	7,151,681
Investment income		**21,447**	15,688
Net cash used by investing activities		**(89,787)**	(172,876)
Net change in cash		**5,715**	307
Cash, beginning of year		**457**	150
Cash, End of Year (Note 1b)	**$**	**6,172**	$ 457

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Fiscal Year Ended June 30, 2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	**$ 199,004**	$ 470,412
Adjustments to reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization expense	**374,826**	261,516
Decrease (increase) in accounts receivable	**39,209**	(25,335)
Decrease in inventories	**28,096**	18,998
(Increase) decrease in deposits, prepaid costs, and other	**(16,564)**	32,605
Increase in accounts payable and accrued expenses	**40,079**	51,076
Decrease in other items	**(27,774)**	(52,277)
Total Adjustments	**437,872**	286,583
Net cash provided by operating activities	**$ 636,876**	$ 756,995
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	**$ 220,170**	$ 397,654
Debt defeased through escrow trust fund with refunding debt	**$ (217,140)**	$ (377,210)

RECONCILIATION OF CASH AND INVESTMENTS TO CASH		
Unrestricted cash and investments (at June 30, 2015 and 2014 include $6,172 and $457 of cash, respectively)	**$ 1,072,838**	$ 1,012,780
Restricted cash and investments	**552,307**	503,940
Total cash and investments, at fair value	**1,625,145**	1,516,720
Less: carrying value of investments	**(1,618,973)**	(1,516,263)
Total Cash (Note 1b)	**$ 6,172**	$ 457

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1. 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. 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 than 38 directors. 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 2015 or 2014. 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 a utility enterprise and 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.

Metropolitan is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting.

For purposes of the statements of cash flows, Metropolitan defines cash as demand account balances and cash on hand.

All investments are stated at fair value, which is based on quoted market price or amortized cost, which approximates fair value.

Certain amounts reported in fiscal year 2014 have been reclassified to conform to the fiscal year 2015 presentation. Such reclassification had no effect on the previously reported change in net position.

(c) Revenue Policies

Metropolitan's principal source of revenue is from water sales, which include revenues received from charges for the sale and availability of water, including water rates and other exchange transactions. 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.

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 includes separate rates for supply, treatment, conveyance and distribution, power, and demand management. 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) 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 as of July 1, using a lien date of March 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 (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, tax levies in fiscal years 1991 to 2013, other than annexation taxes, were 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. During fiscal years 2014 and 2015, the Board suspended the tax rate limitations and maintained the fiscal year 2013 tax rate for fiscal years 2014 and 2015 to pay a portion of State Water Contract costs other than debt service.

(e) Other Receivables

Other receivables include amounts for taxes, hydroelectric power sales, readiness-to-serve charges, and other billings.

(f) 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, 2015 and 2014 were as follows:

	June 30,	
(Dollars in thousands)	**2015**	2014
Water in storage	**$ 58,783**	$ 86,592
Operating supplies	**10,260**	10,548
Total inventories	**$ 69,043**	$ 97,140

(g) Plant and Equipment

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 storage and distribution facilities, 10 to 50 years for treatment plants and hydroelectric power recovery facilities, and 10 to 50 years for miscellaneous assets. 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.

(h) Participation Rights

Metropolitan participates in various storage and water management programs entitling it to certain water rights. Projects include the State Water Project (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.)

(i) Disaggregation of Payable Balances

Accounts payable and accrued expenses at June 30, 2015 and 2014 were as follows:

	June 30,	
(Dollars in thousands)	**2015**	2014
Department of Water Resources (State Water Project):		
Capital, operating, maintenance, power, replacement, and variable power	**$ 99,538**	$ 90,221
Vendors	**53,473**	41,262
Accrued power costs	**3,717**	3,948
Accrued salaries	**5,535**	4,624
Readiness-to-serve overcollection	**1,936**	1,403
Conservation credits	**21,343**	13,972
Total accounts payable and accrued expenses	**$ 185,542**	$ 155,430

(j) 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.

(k) 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.

(l) 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.

(m) 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 water sales, 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.

(n) 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.

(o) Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles 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.

(p) Deferred Outflows of Resources

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63) requires that the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources be reported as net position. In addition, the impact of a deferred outflow of resources on net position must be explained as is done in the following paragraph.

The unrestricted net position amount of $738.9 million and $1,288.7 million at June 30, 2015 and 2014, respectively, includes the effect of deferring the recognition of losses from bond refundings, swap terminations resulting in defeasance of debt, and the decline in fair value of Metropolitan's effective interest rate swaps. The deferred outflows from losses on bond refundings at June 30, 2015 and 2014, respectively, were $89.7 million and $99.8 million, respectively. The deferred outflows from losses on swap terminations resulting in debt defeasance at June 30, 2015 and 2014, respectively, were $38.6 million and $43.3 million. Both 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 from the decline in fair value of interest rate swaps of $15.7 million and $30.7 million at June 30, 2015 and 2014, respectively, would be recognized as an investment loss 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 also would be recognized as an investment loss if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred outflow would be reduced and the deferred loss on refunding increased by the same amount. The deferred loss on refunding would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

(q) Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, Pension Expense and Implementation of Accounting Principles

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68), provides requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's net position available for paying benefits, there is a net pension liability which must be reported in the basic financial statements. In addition, GASB 68 requires that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71) requires that, at transition to the new accounting standards in accordance with GASB 68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts. Metropolitan did not restate the financial statements for the year ended June 30, 2014 because the necessary actuarial information from CalPERS was not provided for the prior year presented. As of July 1, 2014, Metropolitan restated beginning net position in the amount of $491.0 million to record the beginning deferred pension contributions and net pension liability.

(r) New Accounting Pronouncements

Metropolitan is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 is effective for Metropolitan's fiscal year ending June 30, 2016.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73), which establishes requirements for defined benefit pensions that are not within the scope of GASB 68, as well as for the assets accumulated for the purposes of providing those pensions. GASB 73 amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67), and GASB 68 for pension plans and pensions that are within their respective scopes. GASB 73 addresses the recognition of the total pension liability of such plans and the disclosures necessary for the plans that did not meet the definition of GASB 68. GASB 73 is effective for Metropolitan's fiscal year ending June 30, 2016.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74), which establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits (OPEB), as well as for certain non-employer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB 74 replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended* (GASB 43), and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (GASB 57). It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended*, GASB 43, and GASB Statement No. 50, *Pension Disclosures*. GASB 74 is effective for Metropolitan's fiscal year ending June 30, 2017.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which establishes new accounting and financial reporting requirements for OPEB improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial*

Reporting by Employers for Postemployment Benefits Other Than Pensions and GASB 57. GASB 75 is effective for Metropolitan's fiscal year ending June 30, 2018.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 identifies the hierarchy of generally accepted accounting principles (GAAP) used to prepare financial statements of state and local governmental entities. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* and is effective for Metropolitan's fiscal year ending June 30, 2016.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77), which requires governments that enter into tax abatement agreements to disclose information about (1) the government's own tax abatement agreements and (2) those that are entered into by other governments and reduce the reporting government's tax revenues. In addition, GASB 77 requires the disclosure of the nature and magnitude of tax abatements agreements to make these transactions more transparent to financial statement users. Metropolitan does not enter into tax abatement agreements, as such, this statement does not apply.

2. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2015 and 2014 was as follows:

(Dollars in thousands)	June 30, 2013	Additions
Capital assets not being depreciated:		
Land, easements and rights of way	$ 555,701	$ —
Construction in progress	1,531,254	196,114
Total capital assets not being depreciated	2,086,955	196,114
Other capital assets:		
Parker Power Plant and Dam	13,009	—
Power recovery plants	177,054	1,582
Other dams and reservoirs	1,435,834	-
Water transportation facilities	3,329,036	35,057
Pumping plants and facilities	229,801	10,706
Treatment plants and facilities	2,038,019	21,309
Power lines and communication facilities	33,517	—
Computer systems software	100,080	1,977
Miscellaneous	701,330	3,170
Major equipment	88,399	5,731
Pre-operating interest and other expenses of original aqueduct	44,595	—
Participation rights in State Water Project (Note 10)	4,564,940	164,979
Participation rights in other facilities (Note 4)	456,109	—
Total other capital assets at historical cost	13,211,723	244,511
Accumulated depreciation and amortization:		
Parker Power Plant and Dam	(10,705)	(163)
Power recovery plants	(81,815)	(3,594)
Other dams and reservoirs	(266,878)	(17,867)
Water transportation facilities	(693,359)	(42,200)
Pumping plants and facilities	(71,985)	(3,178)
Treatment plants and facilities	(499,567)	(41,696)
Power lines and communication facilities	(9,229)	(412)
Computer systems software	(88,276)	(6,178)
Miscellaneous	(141,327)	(17,432)
Major equipment	(73,706)	(4,711)
Pre-operating interest and other expenses of original aqueduct	(36,312)	(1,035)
Participation rights in State Water Project (Note 10)	(3,108,974)	(109,399)
Participation rights in other facilities (Note 4)	(135,133)	(13,651)
Total accumulated depreciation and amortization	(5,217,266)	(261,516)
Other capital assets, net	7,994,457	(17,005)
Total capital assets, net	$ 10,081,412	$ 179,109

Depreciation and amortization was charged as follows:

Depreciation of water related assets

Amortization of State Water Project entitlements (Note 10)

Amortization of participation rights (Note 4)

Depreciation and amortization expense related to capital assets

Plus: Net retirements adjusted to expense

Total depreciation and amortization expense

Reductions	June 30, 2014	**Additions**	**Reductions**	**June 30, 2015**
$ (1,158)	$ 554,543	**$ 3,179**	**$ (139)**	**$ 557,583**
(95,426)	1,631,942	**221,749**	**(208,743)**	**1,644,948**
(96,584)	2,186,485	**224,928**	**(208,882)**	**2,202,531**
—	13,009	**—**	**—**	**13,009**
—	178,636	**—**	**—**	**178,636**
—	1,435,834	**4,252**	**(24)**	**1,440,062**
—	3,364,093	**132,809**	**(4,973)**	**3,491,929**
—	240,507	**180**	**(10)**	**240,677**
—	2,059,328	**70,336**	**(1,821)**	**2,127,843**
—	33,517	**300**	**(10)**	**33,807**
—	102,057	**6,238**	**(50)**	**108,245**
—	704,500	**1,787**	**—**	**706,287**
(2,808)	91,322	**6,866**	**(4,726)**	**93,462**
—	44,595	**—**	**—**	**44,595**
(59,334)	4,670,585	**168,293**	**(43,920)**	**4,794,958**
—	456,109	**5,800**	**—**	**461,909**
(62,142)	13,394,092	**396,861**	**(55,534)**	**13,735,419**
—	(10,868)	**(943)**	**—**	**(11,811)**
—	(85,409)	**(3,576)**	**—**	**(88,985)**
—	(284,745)	**(18,539)**	**24**	**(303,260)**
—	(735,559)	**(98,241)**	**4,288**	**(829,512)**
—	(75,163)	**(3,764)**	**10**	**(78,917)**
—	(541,263)	**(89,717)**	**1,594**	**(629,386)**
—	(9,641)	**(517)**	**9**	**(10,149)**
—	(94,454)	**(5,790)**	**50**	**(100,194)**
—	(158,759)	**(21,651)**	**—**	**(180,410)**
2,808	(75,609)	**(4,845)**	**4,715**	**(75,739)**
—	(37,347)	**(1,035)**	**—**	**(38,382)**
—	(3,218,373)	**(112,160)**	**—**	**(3,330,533)**
—	(148,784)	**(13,766)**	**—**	**(162,550)**
2,808	(5,475,974)	**(374,544)**	**10,690**	**(5,839,828)**
(59,334)	7,918,118	**22,317**	**(44,844)**	**7,895,591**
$ (155,918)	$ 10,104,603	**$ 247,245**	**$ (253,726)**	**$ 10,098,122**
	$ 138,466			**$ 248,618**
	109,399			**112,160**
	13,651			**13,766**
	261,516			**374,544**
	—			**282**
	$ 261,516			**$ 374,826**

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, 2015 and 2014, Metropolitan's deposits with financial institutions were $6,167,000 and $452,000 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, repurchase agreements, negotiable certificates of deposit, bankers' acceptances, prime commercial paper, asset and mortgage-backed securities, California local agency securities, including securities issued by Metropolitan, medium-term corporate notes, time deposits, investment contracts, shares of beneficial interest, and Local Agency Investment Fund (LAIF). As of June 30, 2015 and 2014, Metropolitan had the following investments at fair value:

	June 30,	
(Dollars in thousands)	**2015**	2014
U.S. Treasury securities	**$ 261,091**	$ 233,927
U.S. Guarantees – GNMAs	**7**	9
Federal agency securities	**204,001**	266,892
Bankers' acceptances	—	277
Prime commercial paper	**324,825**	318,146
Medium-term corporate notes	**219,601**	174,740
Negotiable certificates of deposit	**440,936**	332,938
Shares of beneficial interest	**532**	1,082
Asset and mortgaged-backed securities	**67,653**	66,734
Municipal bonds	**50,327**	71,518
Local Agency Investment Fund	**50,000**	50,000
Total investments	**$ 1,618,973**	$ 1,516,263

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).

Internally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch 3-Month Treasury Bill Index, approved by the Finance and Insurance Committee. For fiscal years 2015 and 2014, the benchmark durations were 0.23 and 0.24, respectively, and the portfolio weighted average duration was permitted to vary from the duration by plus or minus 0.20. As of June 30, 2015 and 2014, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2015		2014	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 48,456**	**1.27**	$ 14,927	5.17
Federal agency securities	**177,097**	**0.20**	246,324	0.31
Bankers' acceptances	**—**	**—**	277	0.07
Prime commercial paper	**324,825**	**0.07**	318,146	0.04
Medium-term corporate notes	**160,129**	**0.17**	113,484	0.15
Negotiable certificates of deposit	**440,756**	**0.09**	332,938	0.08
Municipal bonds	**2,000**	**7.47**	995	0.11
Local Agency Investment Fund	**50,000**	**—**	50,000	—
Weighted average duration		**0.17**		0.19

Externally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. For fiscal years 2015 and 2014, the benchmark durations were 2.68 and 2.72, respectively, and the portfolio weighted average duration was permitted to vary from the duration by plus or minus 1.50. As of June 30, 2015 and 2014, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2015		2014	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 191,861**	**2.74**	$ 190,919	2.59
U.S. Guarantees – GNMAs	**7**	**5.67**	9	6.29
Federal agency securities	**18,890**	**2.48**	12,417	4.69
Medium-term corporate notes	**58,220**	**2.62**	59,751	3.25
Shares of beneficial interest	**532**	**—**	1,082	—
Asset and mortgaged-backed securities	**67,653**	**2.44**	66,734	3.25
Weighted average duration		**2.64**		2.91

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, 2015 and 2014, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2015		2014	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 20,774**	**6.32**	$ 28,081	7.30
Federal agency securities	**8,014**	**1.56**	8,151	2.08
Negotiable certificates of deposit	**180**	**0.04**	—	—
Medium-term corporate notes	**1,252**	**0.23**	1,505	0.20
Municipal bonds	**48,327**	**7.32**	70,523	8.20
Weighted average duration		**6.34**		7.39

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. Government and agencies	Not applicable.
Bankers' acceptances Prime commercial paper Negotiable certificates of deposit Time deposits	Prime quality of the highest ranking or highest letter and numerical rating ('A1', 'P1', 'F1' or higher) as provided by Moody's Investors Service, Inc., Standard and Poor's Ratings Services, and Fitch Ratings. Credit requirement may be waived for the maximum deposit that is insured by the Federal Deposit Insurance Corporation.
Repurchase agreements	Only with primary dealers in government securities or financial institutions with a Moody's Investors Service, Inc. or equivalent rating of 'A' or better.
Investment contracts	Not applicable. Limited to guaranteed investment contracts, or agreements collateralized with U.S. Treasury or agency securities.
Medium-term corporate notes	Rating category of at least 'A' or better, or the equivalent, by a nationally recognized rating agency.
Asset and mortgage-backed securities	Issuer's debt must be rated 'A' or higher as provided by a nationally recognized rating agency and the security must be rated in a category of 'AAA' by a nationally recognized rating agency.
Local Agency Investment Fund	Not applicable.
Shares of beneficial interest	Highest ranking of the highest letter and numerical rating provided by not less than two nationally recognized rating agencies.
California local agency securities Municipal bonds	Securities with a maturity in excess of five years must have a credit rating of at least 'AA' (may be insured) and an underlying credit rating of 'A' or better by a nationally recognized rating agency.

Metropolitan's minimum rating for assets and mortgage-backed securities of 'AAA' is more restrictive than the California Government Code requirement of 'AA'.

At June 30, 2015 and 2014, Metropolitan's portfolio was invested in the following securities by rating:

		June 30,	
		2015	2014
(Dollars in thousands)	Rating	**Fair value**	Fair value
U.S. Treasury securities	AAA[(1)]	**$ 261,091**	$ 233,927
U.S. Guarantees – GNMAs	AAA	**7**	9
Federal agency securities	AAA[(1)]	**204,001**	266,892
Shares of beneficial interest	AAA	**532**	1,082
Asset and mortgaged-backed securities	AAA	**67,653**	66,734
Medium-term corporate notes	A[(2)]	**219,601**	174,740
Prime commercial paper	A1/P1[(2)]	**324,825**	318,146
Negotiable certificates of deposit	F1[(2)]	**440,936**	332,938
Bankers' acceptances	F1[(2)]	**—**	277
Municipal bonds	A[(2)]	**50,327**	71,518
Local Agency Investment Fund	[(3)]	**50,000**	50,000
Total portfolio		**$ 1,618,973**	$ 1,516,263

(1) *United States Treasuries and Federal Agencies are rated "AAA" by two nationally recognized rating agencies and "AA" by one nationally recognized rating agency.*

(2) *A or better e.g. F1+, A1+, AA, or AAA.*

(3) *Local Agency Investment Fund 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 asset and mortgage-backed securities, to 100 percent for U.S. Treasury and 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, 2015 and 2014.

	Investment Policy Limits	Percent of Portfolio 2015	Percent of Portfolio 2014
U.S. Treasury securities	100%	**16.13 %**	15.43 %
U.S. Guarantees – GNMAs	100%	—	—
Federal agency securities	100%	**12.60**	17.60
Shares of beneficial interest	20%	**0.03**	0.07
Asset and mortgaged-backed securities	20%	**4.18**	4.40
Medium-term corporate notes	30%	**13.56**	11.52
Prime commercial paper	25%	**20.06**	20.98
Negotiable certificates of deposit	30%	**27.24**	21.96
Bankers' acceptances	40%	—	0.02
Municipal bonds	30%	**3.11**	4.72
Local Agency Investment Fund	N/A	**3.09**	3.30
Total portfolio		**100.00 %**	100.00 %

At June 30, 2015 and 2014, 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)	June 30, 2015		June 30, 2014	
Federal National Mortgage Association	**$ 111,831**	**6.91 %**	$ 184,475	12.17 %
Federal Home Loan Mortgage Corporation	**$ 81,036**	**5.01 %**	$ —	— %

Custodial credit risk. At June 30, 2015 and 2014, 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 $50.0 million in deposits in the California State managed LAIF as of June 30, 2015 and 2014.

The LAIF, created by California statute, is part of a pooled money investment account. The LAIF has oversight by the Local Investment Advisory Board, which consists of five members designated by statute. The Chairman is the State Treasurer, or his designated representative.

(c) Reverse Repurchase Agreements

Metropolitan was 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, 2015 and 2014.

(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 were classified as "restricted." Most restricted accounts had the minimum cash and investment balance requirements and all were nondiscretionary in terms of the use of assets. Among other things, the restricted amounts provided 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.

4. PARTICIPATION RIGHTS

Participation rights activity for the fiscal years ended June 30, 2015 and 2014 was as follows:

(Dollars in thousands)	June 30, 2013	Additions
Participation rights:		
Imperial Irrigation District	$ 112,313	$ —
Palo Verde Irrigation District	82,804	—
Kern Water District	39,007	—
South County Pipeline	72,371	—
Semitropic Water Storage District	31,319	—
Arvin Edison Water Storage District	47,187	—
Chino Basin	27,500	—
Orange County	23,000	—
Conjunctive Use Programs	20,608	—
Total	456,109	—
Accumulated amortization:		
Imperial Irrigation District	(47,611)	(2,271)
Palo Verde Irrigation District	(19,361)	(2,342)
Kern Water District	(6,428)	(2,171)
South County Pipeline	(18,546)	(913)
Semitropic Water Storage District	(13,156)	(813)
Arvin Edison Water Storage District	(14,418)	(1,468)
Chino Basin	(6,179)	(1,453)
Orange County	(5,078)	(1,195)
Conjunctive Use Programs	(4,356)	(1,025)
Total	(135,133)	(13,651)
Participations rights, net	$ 320,976	$ (13,651)

Reductions	June 30, 2014	**Additions**	**Reductions**	**June 30, 2015**
$ —	$ 112,313	**$ —**	**$ —**	**$ 112,313**
—	82,804	**—**	**—**	**82,804**
—	39,007	**—**	**—**	**39,007**
—	72,371	**—**	**—**	**72,371**
—	31,319	**5,800**	**—**	**37,119**
—	47,187	**—**	**—**	**47,187**
—	27,500	**—**	**—**	**27,500**
—	23,000	**—**	**—**	**23,000**
—	20,608	**—**	**—**	**20,608**
—	456,109	**5,800**	**—**	**461,909**
—	(49,882)	**(2,270)**	**—**	**(52,152)**
—	(21,703)	**(2,343)**	**—**	**(24,046)**
—	(8,599)	**(2,172)**	**—**	**(10,771)**
—	(19,459)	**(912)**	**—**	**(20,371)**
—	(13,969)	**(929)**	**—**	**(14,898)**
—	(15,886)	**(1,467)**	**—**	**(17,353)**
—	(7,632)	**(1,453)**	**—**	**(9,085)**
—	(6,273)	**(1,195)**	**—**	**(7,468)**
—	(5,381)	**(1,025)**	**—**	**(6,406)**
—	(148,784)	**(13,766)**	**—**	**(162,550)**
$ —	$ 307,325	**$ (7,966)**	**$ —**	**$ 299,359**

(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 104,940 and 109,460 acre-feet annually. Under the October 2003 amendment to an agreement and at the request of the Coachella Valley Water District (CVWD), 20,000 acre-feet of the total conserved volume was made available to CVWD. Under the May 2007 amendment to the agreement and a December 2015 letter agreement, at least 87,820 and 84,305 acre-feet will be/was available in calendar years 2015 and 2014, 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 $112,313,000 as of June 30, 2015 and 2014, and are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $2,270,000 and $2,271,000 in fiscal years 2015 and 2014, respectively.

(b) Palo Verde Irrigation District

In August 2004, Metropolitan entered into an agreement with Palo Verde Irrigation District (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 130,000 acre-feet 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 $82,804,000 as of June 30, 2015 and 2014, and are being amortized using the straight-line method over 35 years. Amortization expense totaled $2,343,000 and $2,342,000 in fiscal years 2015 and 2014, respectively.

(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 250,000 acre-feet of water and currently has 133,167 acre-feet in the program. The program is intended to provide a minimum recharge and return capability of 50,000 acre-feet 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 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 $39,007,000 as of June 30, 2015 and 2014, and are being amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $2,172,000 and $2,171,000 in fiscal years 2015 and 2014, respectively.

(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 $72,371,000 as of June 30, 2015 and 2014. These participation rights are amortized using the straight-line method over 80 years, which is the life of the agreement. Amortization expense totaled $912,000 and $913,000 in fiscal years 2015 and 2014, respectively.

(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 State Water Project 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 350,000 acre-feet and currently has 182,860 acre-feet in the program. Metropolitan is entitled to a minimum of 31,500 acre-feet per year of pump back capacity. In addition, assuming a 100 percent State Water Project allocation, Metropolitan is entitled to a minimum of 46,550 acre-feet 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 223,000 acre-feet per year assuming a 100 percent State Water Project allocation and usage of the other banking partners' rights. In fiscal year 2015, Metropolitan spent $5,800,000 to increase the return capacity by 13,200 acre-feet per year.

Participation rights for this program totaled $37,119,000 and $31,319,000 as of June 30, 2015 and 2014, respectively. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $929,000 and $813,000 in fiscal years 2015 and 2014, 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 350,000 acre-feet of water and currently has 148,011 acre-feet in the program. The minimum estimated return capability for the Arvin-Edison program varies from 40,000 acre-feet per year to 75,000 acre-feet 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 $47,187,000 as of June 30, 2015 and 2014. These participation rights are amortized using the straight-line method over the longer life of the transportation program. Amortization expense totaled $1,467,000 and $1,468,000 in fiscal years 2015 and 2014, respectively.

(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 25,000 acre-feet per year to a maximum of 100,000 acre-feet and may withdraw up to 33,000 acre-feet per year for overlying demand during dry, drought, or emergency conditions. The facilities became operational during fiscal year 2009. As of June 2015, Metropolitan had no 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 $27,500,000 as of June 30, 2015 and 2014. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $1,453,000 in fiscal years 2015 and 2014.

(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 66,000 acre-feet in the Orange County Basin. Metropolitan may store up to 16,500 acre-feet per year and withdraw up to 22,000 acre-feet for overlying demand during dry, drought, or emergency conditions. The facilities became operational during fiscal year 2009. As of June 2015, Metropolitan had 16,630 acre-feet 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 $23,000,000 as of June 30, 2015 and 2014. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $1,195,000 in fiscal years 2015 and 2014.

(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 45,889 acre-feet with storage of 11,472 acre-feet per year and withdrawal of 15,296 acre-feet per year for overlying demand during dry, drought, or emergency conditions. As of June 2015, Metropolitan had a total of 2,467 acre-feet 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 $20,608,000 at June 30, 2015 and 2014. These participation rights are amortized using the straight-line method over the remaining lives of the agreements. Amortization expense totaled $1,025,000 in fiscal years 2015 and 2014.

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 $4.478 billion and $4.616 billion at June 30, 2015 and 2014, respectively, represents less than one percent of the June 30, 2015 and 2014 total taxable assessed valuation of $2,451 billion and $2,315 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) Short-term Debt

Metropolitan may issue up to $400.0 million in commercial paper to fund a portion of its capital plan. During the fiscal years ended June 30, 2015, and 2014, there were no commercial paper notes issued or outstanding. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds (see Note 5c).

(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 plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled $850.0 million at June 30, 2015 and 2014. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of $110.4 million and $132.3 million in general obligation bonds and general obligation refunding bonds were outstanding at June 30, 2015 and 2014, respectively.

The general obligation and general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates ranging from 2.0 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 premiums.

No general obligation bonds were issued during the fiscal years ended June 30, 2015 and 2014.

(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 $4.157 billion and $4.272 billion of revenue bonds and revenue refunding bonds were outstanding at June 30, 2015 and 2014, 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 2040 at interest rates ranging from 0.22 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 interest payment dates, and subject to early redemption premiums.

No revenue bonds were issued during the fiscal years ended June 30, 2015 and 2014.

(d) Bond Refundings and Defeasances

Metropolitan has issued Waterworks General Obligation Refunding Bonds, Water Revenue Refunding Bonds, and Special Variable Rate Water Revenue Refunding Bonds to refund various issues of Waterworks General Obligation Bonds, Waterworks General Obligation Refunding Bonds, Water Revenue Bonds, Water Revenue Refunding Bonds, and Special Variable Rate Water Revenue Refunding Bonds 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 2015 were as follows:

- On August 29, 2014, Metropolitan issued $86,060,000 of Water Revenue Refunding Bonds, 2014 Series E, $7,860,000 of Water Revenue Refunding Bonds, 2014 Series F (Federally Taxable) and $57,840,000 of Water Revenue Refunding Bonds, 2014 Series G-1, G-2, G-3, G-4 and G-5 (Term Mode), at a combined true interest cost of 3.16 percent, and related original issue premium together with available resources on hand were used to refund $79,185,000 of Water Revenue Refunding Bonds, 2004 Series A-1 and A-2, $83,520,000 of Water Revenue Refunding Bonds, 2008 Series A-2, and to fund $17.0 million of swap termination payments. The maturities of the 2014 Series E, 2014 Series F and 2014 Series G-1, G-2, G-3, G-4 and G-5 bonds extend to July 1, 2024, January 1, 2015, and July 1, 2037, respectively.

  The 2014 Series E and 2014 Series F bonds are not subject to optional or mandatory redemption provisions. The 2014 Series G-1, G-2, G-3, G-4 and G-5 bonds are subject to an unscheduled mandatory tender, at Metropolitan's discretion, beginning July 1, 2016, July 1, 2017, July 1, 2018, July 1, 2019 and July 1, 2020, respectively, and are subject to mandatory and optional redemption provisions.

- On December 2, 2014, Metropolitan issued $49,645,000 of Waterworks General Obligation Refunding Bonds, 2014 Series A, at a true interest cost 1.05 percent, and related original issue premium were used to refund $54,435,000 of Waterworks General Obligation Refunding Bonds, 2005 Series A. The maturities of the 2014 Series A bonds extend to March 1, 2021. The 2014 Series A bonds are not subject to optional or mandatory redemption provisions.

Refunding and defeasance transactions during fiscal year 2014 were as follows:

- On July 2, 2013, Metropolitan issued $104,820,000 of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E (Flexible Index Mode), at variable rates, to refund $104,185,000 Water Revenue Refunding Bonds, 2009 Series A-1. Their maturities extend to July 1, 2030. The 2013 Series E bonds are subject to an unscheduled mandatory tender, at Metropolitan's discretion, beginning September 5, 2013, and are subject to mandatory and optional redemption provisions.

- On March 14, 2014, Metropolitan issued $95,935,000 of Water Revenue Refunding Bonds, 2014 Series A, $10,575,000 of Water Revenue Refunding Bonds, 2014 Series B (Federally Taxable), and $30,335,000 of Water Revenue Refunding Bonds, 2014 Series C-1, C-2, and C-3 (Term Mode), at a combined true interest cost of 3.65 percent, and related original issue premium together with available resources on hand were used to refund $15,345,000 of Water Revenue Refunding Bonds, 2004 Series A-1 and A-2, $36,995,000 of Water Revenue Refunding Bonds, 2008 Series A-1, $4,400,000 of Water Revenue Refunding Bonds, 2008 Series A-2, $90,095,000 of Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A, and to fund $15,487,884 of swap termination payments. The maturities of the 2014 Series A, 2014 Series B and 2014 Series C-1, C-2, and C-3 bonds extend to July 1, 2021, July 1, 2018, July 1, 2027, July 1, 2025, and July 1, 2023, respectively.

  The 2014 Series A bonds are not subject to optional or mandatory redemption provisions. The 2014 Series B bonds are subject to optional redemption provisions. The 2014 Series C-1, C-2, and C-3 bonds are subject to an unscheduled mandatory tender, at Metropolitan's discretion, beginning July 1, 2019, July 1, 2020, and July 1, 2021, respectively, and are subject to mandatory and optional redemption provisions.

- On May 29, 2014, Metropolitan issued $79,770,000 of Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D, at variable rates, and available resources on hand were used to refund $87,945,000 of Water Revenue Refunding Bonds, 2004 Series B, $9,825,000 of Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A, and $28,420,000 of Water Revenue Refunding Bonds, 2012 Series E-1 (Term Mode). Their maturities extend to July 1, 2032 and are subject to optional and mandatory redemption provisions.

These refundings and defeasances were accomplished to take advantage of lower interest rates. In addition to realizing economic savings, Metropolitan also issued certain refunding bonds to eliminate or mitigate certain risks associated with managing its variable rate debt and interest rate swap portfolios. The transactions resulted in cash flow savings of $16.4 million and $27.5 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of $6.6 million and $25.8 million for fiscal years 2015 and 2014, respectively. The difference between the book value of the old debt and the amount required to retire the debt 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, 2015 and 2014 were $89.7 million and $99.8 million, respectively, and the deferred outflows on swap terminations were $38.6 million and $43.3 million, respectively.

(e) Other Long-term Debt
In November 2003, Metropolitan received $20.0 million through the state Department of Water Resources for oxidation retrofit facilities at the Mills Water Treatment Plant in Riverside County. This 20-year State Revolving Fund loan carries interest at 2.39 percent with the final payment due July 1, 2024. At June 30, 2015 and 2014, the outstanding balance was $10.7 million and $11.7 million, respectively.

(f) Interest Rate Swaps
Metropolitan has entered into 22 separate interest rate swap agreements of which 8 were outstanding as of June 30, 2015. The eight 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, 2015, 2014, and 2013 are summarized on the following table.

(Dollars in thousands)

Associated Bond Issue [1]		Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Counterparty Credit Rating
2002 A Payor	$	75,838	09/12/02	3.300%	57.74% of 1MoLIBOR[5]	A3/A-/A
2002 B Payor		28,372	09/12/02	3.300%	57.74% of 1MoLIBOR	Aa3/A+/AA-
2003 Payor C-1 C-3		158,598	12/18/03	3.257%	61.20% of 1MoLIBOR	A3/BBB+/A
2003 Payor C-1 C-3		158,598	12/18/03	3.257%	61.20% of 1MoLIBOR	Aa3/A+/AA-
2004 Payor A-1 A-2		—	02/19/04	2.917%	61.20% of 1MoLIBOR	N/A
2004 C Payor		7,761	11/16/04	2.980%	61.55% of 1MoLIBOR	A3/A-/A
2004 C Payor		6,350	11/16/04	2.980%	61.55% of 1MoLIBOR	Baa1/A-/A
2005 Payor		29,058	07/06/05	3.360%	70.00% of 1MoLIBOR	Aa3/A+/AA-
2005 Payor		29,058	07/06/05	3.360%	70.00% of 1MoLIBOR	Baa1/A-/A
2006 Payor		—	04/04/06	3.210%	63.00% of 1MoLIBOR	N/A
2006 Payor		—	04/04/06	3.210%	63.00% of 1MoLIBOR	N/A
Sub-total pay-fixed receive-variable		493,630				
2004 Basis		—	05/19/04	SIFMA[6]	70% of 1MoLIBOR +31.5 basis points	Aa3/A+/AA-
2004 Re-Amended basis		—	05/19/04	SIFMA[6]	70% of 1MoLIBOR +31.5 basis points	Aa3/A+/AA-
Sub-total pay-variable, receive-variable		—				
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, Fitch Ratings, respectively.*

[3] *The Securities Industry and Financial Markets Municipal Swap Index, previously known as Bond Marketing Index.*

[4] *Excludes accrued interest.*

[5] *London Interbank Offered Rate.*

[6] *Variable rate paid is based on the SIFMA index.*

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2015 and 2014

Swap	Fair Value as of 6/30[4]			Change in Fair Value in FY	
Termination	**2015**	2014	2013	**2015**	2014
07/01/25	**$ (10,962)**	$ (12,526)	$ (13,410)	**$ 1,564**	$ 884
07/01/25	**(4,097)**	(4,677)	(4,963)	**580**	286
07/01/30	**(26,897)**	(26,218)	(25,981)	**(679)**	(237)
07/01/30	**(26,897)**	(26,218)	(25,981)	**(679)**	(237)
07/01/23	**—**	(9,239)	(11,167)	**9,239**	1,928
10/01/29	**(1,156)**	(1,068)	(6,599)	**(88)**	5,531
10/01/29	**(938)**	(867)	(5,372)	**(71)**	4,505
07/01/30	**(4,805)**	(7,369)	(7,460)	**2,564**	91
07/01/30	**(4,761)**	(7,323)	(7,530)	**2,562**	207
07/01/21	**—**	—	(2,540)	**—**	2,540
07/01/21	**—**	—	(2,540)	**—**	2,540
	(80,513)	(95,505)	(113,543)	**14,992**	18,038
07/01/14	**—**	—	392	**—**	(392)
07/01/14	**—**	—	392	**—**	(392)
	—	—	784	**—**	(784)
	$ (80,513)	$ (95,505)	$ (112,759)	**$ 14,992**	$ 17,254

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, 2015, 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 June 30, 2015, 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, 2015.

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, 2015, 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 Aa3/A+/AA- by Moody's, Standard & Poor's, 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, 2015, the interest rates of the variable rate debt associated with these swap transactions range from 0.01 percent to 0.45 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 0.11 percent to 0.20 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. On February 12, 2014, Metropolitan exercised its optional termination provisions and terminated one swap in its entirety and partially terminated two other swaps. The termination payment of $15.5 million was funded from a portion of the proceeds of the 2014 Series A, B, and C Water Revenue Refunding Bonds, and resulted in a loss on early termination of $3.3 million, which is included in interest expense. On July 29, 2014, Metropolitan exercised its optional termination provisions and terminated one swap in its entirety and partially terminated six other swaps. The termination payment of $17.0 million was funded from a portion of the proceeds of the 2014 Series E, F, and G Water Revenue Refunding Bonds, and resulted in a loss on early termination of $18.7 million, which is included in interest expense.

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.

Pay-Variable, Receive-Variable

Objective of the Swaps: The low interest rate environment during fiscal years 2004 through 2006 enabled Metropolitan to reduce the cost of Metropolitan's debt obligations by taking advantage of the relationship between taxable and tax-exempt market indices. To take advantage of the market opportunity, Metropolitan entered into two SIFMA-to-LIBOR basis swap transactions to generate additional cash flow savings while preserving the call option value of its existing bonds. Metropolitan pays a variable rate based on the SIFMA or tax-exempt index and receives a variable rate based on a percentage of the LIBOR or taxable index.

Terms: On May 17, 2004, Metropolitan entered into two basis swap transactions (2004 Basis Swaps) with two counterparties. The terms of both swaps are 10 years and terminated in July 2014. The notional amount of each swap is $125.0 million. Under the terms of the swaps, Metropolitan pays a variable rate equal to the SIFMA Index and receives a variable rate based on 70.0 percent of the one-month LIBOR plus 31.5 basis points.

(g) Swap Payments and Associated Debt

Using rates as of June 30, 2015, 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.

	Variable Rate Bonds		Interest Rate	
(Dollars in thousands)	Principal	Interest	Swaps, Net	Total
Year ending June 30:				
2016	$ —	$ 777	$ 15,537	$ 16,314
2017	—	777	15,537	16,314
2018	—	777	15,537	16,314
2019	—	777	15,537	16,314
2020	—	777	15,537	16,314
2021-2025	220,760	2,967	59,270	282,997
2026-2030	242,035	819	16,276	259,130
2031	30,835	4	81	30,920
Total	$ 493,630	$ 7,675	$ 153,312	$ 654,617

(h) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from 0.01 percent to 0.41 percent as of June 30, 2015 and 0.03 percent to 0.41 percent as of June 30, 2014. Metropolitan can elect to change the interest rate period of the bonds with certain limitations. With the exception of the Water Revenue Refunding Bonds, 2009 SIFMA Index Bonds Series A-2, 2011 SIFMA Index Bonds Series A-1, A-2, A-3, and A-4, 2012 SIFMA Index Bonds Series B-1 and B-2, and the 2013 Flexible Index Bonds, Series E, the bondholders have the right to tender bonds to the paying agent on any business day with either same day or seven days' prior notice. The current terms of the 2009 SIFMA Index Bond Series A-2 and the 2011 SIFMA Index Bonds Series A-1 and A-3 provide bondholders a right to tender bonds to the paying agent annually, for the 2011 SIFMA Index Bonds Series A-2 and A-4, and the 2012 SIFMA Index Bonds Series 2012 B-1 and B-2, every three years, and for the 2013 Flexible Index Bond, every 270 days. Metropolitan has entered into standby bond purchase agreements (SBPA) with several commercial banks to provide liquidity for three and five separate variable rate bond issues in the amount of $240.1 million and $402.8 million as of June 30, 2015 and 2014, respectively. In addition, Metropolitan has ten series of variable rate bonds in the amount of $703.6 million as of June 30, 2015 and 2014 that are not supported by an SBPA.

The Bank Bonds that would be issued under the SBPA would bear interest that is payable at a rate, depending on the agreement, that is the higher of the "base rate", which is based on the prime rate or Federal Funds rate or LIBOR, plus a spread, as designated in each SBPA. The base rate is then adjusted upwards by between 2.0 percent and 8.0 percent. The principal of the Bank Bonds would be payable, depending on the agreement, from between six to ten equal semi-annual installments commencing between 180 days and one year after purchase by the bank. For eight series of variable rate bonds not supported by SBPA in the amount of $536.5 million, if the purchase price is not paid from the proceeds of remarketing or other funds, such bonds then will bear interest at a rate equal to the lower of (i) 12.0 percent and (ii) the higher of 8.0 percent or Prime Rate plus 3.0 percent until purchased by Metropolitan or redeemed pursuant to a special mandatory redemption. The principal amount of these new bonds would be payable in three equal installments at 18 month increments from the conversion of the bonds to a fixed rate.

The two series of self-liquidity variable rate bonds that were not supported by a SBPA at June 30, 2015 and 2014, were the $87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds, and the $79.8 million, 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds. These variable rate bonds outstanding at June 30, 2015 and 2014, had no long-term take out provisions therefore, the entire principal amount of $167.2 million may be tendered for purchase upon one week's notice from bondholders. However, on March 21, 2013, Metropolitan entered into a Revolving Credit Agreement (RCA), by which Metropolitan may borrow up to $96.5 million to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. The RCA permits repayment of any borrowed funds over a term-out period beginning 90 days after the RCA's stated expiration date of March 31, 2016. As a result of the RCA, only $70.7 million of these self-liquidity bonds have been classified as current liabilities as of June 30, 2015 and 2014.

The 2013 Series D and 2014 Series D bonds that may be purchased from borrowings under the RCA have been classified as long-term obligations on the statement of net position, the same as all other variable rate bonds. Metropolitan intends to either renew the SBPA and RCA, or maintain the existing provisions of non-SBPA/ RCA supported bonds, or exercise its right to require bond holders to tender the variable rate debt and issue refunding bonds. The SBPA expire September 2016 and February 2017.

(i) Long-term Debt Obligation Summary

Interest rates at June 30, 2015 on all outstanding fixed-rate obligations range from 0.22 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, 2015 are as follows:

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2016	$ 145,039	$ 166,144	$ 311,183
2017	147,769	160,165	307,934
2018	165,189	152,566	317,755
2019	160,534	144,576	305,110
2020	162,051	136,560	298,611
2021-2025	789,787	572,525	1,362,312
2026-2030	807,765	433,666	1,241,431
2031-2035	983,655	282,505	1,266,160
2036-2040	810,930	113,060	923,990
2041	105,490	3,664	109,154
	$ 4,278,209	$ 2,165,431	$ 6,443,640

Unamortized bond discount and premium, net	200,028
Total debt	4,478,237
Less current portion	(228,103)
Long-term portion of debt	$ 4,250,134

6. LONG-TERM LIABILITIES

Long-term liability activity for the fiscal years ended June 30, 2015 and 2014 is shown on the following table. Payments on the bonds are made from the restricted debt service funds; other long-term debt, the off-aqueduct power facilities obligation, and the compensated absences liability will be liquidated primarily with water revenues.

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2015 and 2014

(Dollars in thousands)	Maturity Dates	Range of Interest Rates	June 30, 2013	Additions
Waterworks general obligation refunding bonds (Note 5b):				
2004 Series A	3/1/13-3/1/15	4.00%-5.00%	$ 27,335	$ —
2005 Series A	3/1/14-3/1/21	4.125%-5.000%	63,640	—
2009 Series A	03/1/12-3/1/28	3.50%-5.00%	38,675	—
2010 Series A	03/1/13-3/1/37	4.00%-5.00%	35,435	—
2014 Series A	03/1/16-3/1/21	2.00%-5.00%	—	—
Total general obligation and general obligation refunding bonds			165,085	—
Water revenue bonds (Note 5c):				
2000 Series B-1-B-4	7/1/29-7/1/35	Variable	177,600	—
2003 Series B-3-B-4	10/1/13-10/1/31	3.50%-5.00%	16,700	—
2005 Series A	7/1/28-7/1/35	4.50%-5.00%	80,855	—
2005 Series C	7/1/13-7/1/35	4.00%-5.00%	175,000	—
2006 Series A	7/1/13-7/1/37	4.00%-5.00%	394,830	—
2008 Series A	1/1/14-1/1/39	4.00%-5.00%	191,970	—
2008 Series B	7/1/12-7/1/20	2.00%-4.00%	19,465	—
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	7/1/40	6.947%	250,000	—
Water revenue refunding bonds (Note 5d):				
1993 Series A-B	7/1/14-7/1/21	5.75%	105,185	—
2003 Series A	7/1/13-7/1/14	5.00%	25,910	—
2004 Series A-1-A-2	7/1/19-7/1/23	Variable	94,530	—
2004 Series B	7/1/13-7/1/16	3.10%-5.00%	120,820	—
2006 Series B	7/1/30-7/1/37	4.375%-5.00%	24,055	—
2008 Series A-1-A-2	7/1/17-7/1/37	Variable	187,380	—
2008 Series B	7/1/13-7/1/22	4.00%-5.00%	127,695	—
2008 Series C	7/1/13-7/1/23	3.00%-5.00%	55,110	—
2009 Series A-1-A-2	7/1/20-7/1/30	Variable	208,365	—
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	7/1/13-7/1/21	2.00%-5.00%	75,825	—
2009 Series E	7/1/12-7/1/20	3.75%-5.00%	23,585	—
2010 Series A	10/1/18-10/1/29	Variable	99,920	—
2010 Series B	7/1/14-7/1/28	2.25%-5.00%	88,845	—
2011 Series A-1-A-4	7/1/16-7/1/36	Variable	228,875	—
2011 Series B	7/1/13-7/1/20	0.45%-5.00%	137,015	—
2011 Series C	10/1/13-10/1/36	2.00%-4.00%	157,100	—
2012 Series A	10/1/23-10/1/36	3.25%-5.00%	181,180	—
2012 Series B	7/1/23-7/1/27	Variable	98,585	—
2012 Series C	7/1/16-7/1/21	3.00%-5.00%	190,600	—
2012 Series D	1/1/13-7/1/16	0.616%-2.00%	38,580	—
2012 Series E	7/1/27-7/1/37	2.50%-3.50%	89,460	—
2012 Series F	7/1/15-7/1/28	3.00%-5.00%	60,035	—
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	—
2013 Series E	7/1/20-7/1/30	Variable	—	104,820
2014 Series A	7/1/18-7/1/21	4.00%-5.00%	—	95,935
2014 Series B	7/1/2018	1.49%	—	10,575
2014 Series C	7/1/22-7/1/27	3.00%	—	30,335
2014 Series D	7/1/15-7/1/32	Variable	—	79,770
2014 Series E	7/1/21-7/1/24	3.50%-5.00%	—	—
2014 Series F	1/1/2015	0.22%	—	—
2014 Series G	7/1/2037	2.00%-3.00%	—	—
Total water revenue and water revenue refunding bonds			4,450,650	321,435
Other long-term debt (Note 5e):				
State revolving fund loans	7/1/09-7/1/24	2.39%	12,161	—
Unamortized bond discount and premiums, net			210,283	19,743
Total long-term debt			4,838,179	341,178
Other long-term liabilities (see table next page)			482,868	105,393
Total long-term liabilities			$ 5,321,047	$ 446,571

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2015 and 2014

Reductions	June 30, 2014	**Additions**	**Reductions**	**June 30, 2015**	**Amounts Due Within One Year**
$ (20,245)	$ 7,090	**$ —**	**$ (7,090)**	**$ —**	**$ —**
(3,535)	60,105	**—**	**(60,105)**	**—**	**—**
(5,025)	33,650	**—**	**(165)**	**33,485**	**2,740**
(4,005)	31,430	**—**	**(4,140)**	**27,290**	**4,225**
—	—	**49,645**	**—**	**49,645**	**10,590**
(32,810)	132,275	**49,645**	**(71,500)**	**110,420**	**17,555**
—	177,600	**—**	**—**	**177,600**	**—**
(8,160)	8,540	**—**	**(8,540)**	**—**	**—**
(5,235)	75,620	**—**	**—**	**75,620**	**—**
—	175,000	**—**	**—**	**175,000**	**—**
(1,670)	393,160	**—**	**(1,805)**	**391,355**	**2,120**
(4,140)	187,830	**—**	**(4,305)**	**183,525**	**4,410**
(2,190)	17,275	**—**	**(2,240)**	**15,035**	**2,300**
—	78,385	**—**	**—**	**78,385**	**—**
—	250,000	**—**	**—**	**250,000**	**—**
—	250,000	**—**	**—**	**250,000**	**—**
—	105,185	**—**	**(3,345)**	**101,840**	**15,300**
(14,130)	11,780	**—**	**(11,780)**	**—**	**—**
(15,345)	79,185	**—**	**(79,185)**	**—**	**—**
(120,820)	—	**—**	**—**	**—**	**—**
—	24,055	**—**	**—**	**24,055**	**—**
(41,395)	145,985	**—**	**(83,520)**	**62,465**	**—**
(285)	127,410	**—**	**(210)**	**127,200**	**220**
(6,530)	48,580	**—**	**(6,780)**	**41,800**	**7,100**
(104,185)	104,180	**—**	**—**	**104,180**	**—**
—	106,690	**—**	**—**	**106,690**	**—**
—	91,165	**—**	**—**	**91,165**	**—**
(5,435)	70,390	**—**	**(5,650)**	**64,740**	**5,880**
(2,565)	21,020	**—**	**(2,665)**	**18,355**	**2,765**
(99,920)	—	**—**	**—**	**—**	**—**
—	88,845	**—**	**(4,670)**	**84,175**	**4,845**
—	228,875	**—**	**—**	**228,875**	**—**
(31,370)	105,645	**—**	**(32,415)**	**73,230**	**37,470**
(500)	156,600	**—**	**(500)**	**156,100**	**8,165**
—	181,180	**—**	**—**	**181,180**	**—**
—	98,585	**—**	**—**	**98,585**	**—**
—	190,600	**—**	**—**	**190,600**	**—**
(8,250)	30,330	**—**	**(10,725)**	**19,605**	**19,000**
(28,420)	61,040	**—**	**—**	**61,040**	**—**
—	60,035	**—**	**—**	**60,035**	**700**
—	111,890	**—**	**—**	**111,890**	**—**
—	87,445	**—**	**—**	**87,445**	**—**
—	104,820	**—**	**—**	**104,820**	**—**
—	95,935	**—**	**—**	**95,935**	**—**
—	10,575	**—**	**—**	**10,575**	**—**
—	30,335	**—**	**—**	**30,335**	**—**
—	79,770	**—**	**—**	**79,770**	**70,669**
—	—	**86,060**	**—**	**86,060**	**—**
—	—	**7,860**	**(7,860)**	**—**	**—**
—	—	**57,840**	**—**	**57,840**	**—**
(500,545)	4,271,540	**151,760**	**(266,195)**	**4,157,105**	**180,944**
(486)	11,675	**—**	**(991)**	**10,684**	**1,015**
(29,130)	200,896	**28,619**	**(29,487)**	**200,028**	**28,589**
(562,971)	4,616,386	**230,024**	**(368,173)**	**4,478,237**	**228,103**
(174,861)	413,400	**651,699**	**(316,409)**	**748,690**	**47,887**
$ (737,832)	$ 5,029,786	**$ 881,723**	**$ (684,582)**	**$ 5,226,927**	**$ 275,990**

(Dollars in thousands)	June 30, 2013	Additions	Reductions	June 30, 2014	**Additions**	**Reductions**	**June 30, 2015**	**Amounts Due Within One Year**
Off-aqueduct power facilities (Note 9f)	$ 30,183	$ —	$ (7,951)	$ 22,232	**$ —**	**$ (4,239)**	**$ 17,993**	**$ 3,276**
Compensated absences	43,956	26,568	(24,122)	46,402	**19,416**	**(19,354)**	**46,464**	**22,100**
Customer deposits and trust funds	69,121	23,798	(11,626)	81,293	**16,058**	**(7,846)**	**89,505**	**11,128**
Net Pension liability	—	—	—	—	**577,171**	**(170,377)**	**406,794**	**—**
Other postemployment benefits (Note 8)	196,349	42,825	(103,851)	135,323	**27,648**	**(79,457)**	**83,514**	**—**
Workers' Compensation and third party claims (Note 14)	27,239	9,184	(9,071)	27,352	**7,951**	**(15,505)**	**19,798**	**9,500**
Fair value of interest rate swaps (Note 5f)	112,759	—	(17,254)	95,505	**—**	**(14,992)**	**80,513**	**—**
Other long-term liabilities	3,261	3,018	(986)	5,293	**3,455**	**(4,639)**	**4,109**	**1,883**
Total other long-term liabilities	$ 482,868	$ 105,393	$ (174,861)	$ 413,400	**$ 651,699**	**$ (316,409)**	**$ 748,690**	**$ 47,887**

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. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for improved non-industrial disability benefits after 5 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.

Active plan members are required to contribute 7.0 percent of their annual covered salary. Metropolitan contributes the full 7.0 percent for active plan members hired before January 1, 2012. Employees hired after January 1, 2012 contribute the full 7.0 percent. At June 30, 2015, Metropolitan's pickup of the employee's 7.0 percent share was $12,725,000.

The Plans' provisions and benefits in effect at June 30, 2015 and 2014 are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
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	50-55	52-67
Monthly benefits as a % of eligible compensation	2.0% to 2.418%	2.0% to 2.5%
Cost of living adjustment	2.0%	2.0%
Required employee contribution rates		
2015	7.0%	6.75%
2014	7.0%	6.75%
Required employer contribution rates		
2015	17.649%	17.649%
2014	16.306%	16.306%

At June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees (or their beneficiaries) currently receiving benefits	1,876
Inactive employees entitled to but not yet receiving benefits	1,042
Active members	1,743
Total	4,661

(b) Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability.

The June 30, 2013 and the June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Discount rate	7.50%
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on age, service, and type of employment
Investment rate of return	7.50% Net of pension plan investment and administrative expenses; includes inflation
Mortality rate table[1]	Derived using CalPERS' membership data for all funds
Post-retirement benefit Increase	Contract COLA up to 2.75% until purchasing power Protection allowance floor on purchasing power applies, 2.75% thereafter

[1] *The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.*

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to Metropolitan's financial statements.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using 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 (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 [1]	Real Return Years 11+ [2]
Global Equity	47.0 %	5.25 %	5.71 %
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	100.0 %		

[1] *An expected inflation of 2.5% used for this period*

[2] *An expected inflation of 3.0% used for this period*

(c) Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase (Decrease)		
(Dollars in thousands)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at June 30, 2013 (VD)[1]	**$ 1,883,028**	**$ 1,358,145**	**$ 524,882**
Changes recognized for the measurement period:			
Service cost	28,505		28,505
Interest on the total pension liability	139,190		139,190
Changes of benefit terms	—		—
Differences between expected and actual experience	—		—
Changes of assumptions	—		—
Contributions from the employer		33,852	(33,852)
Contributions from employees		15,185	(15,185)
Net investment income[2]		236,746	(236,746)
Benefit payments, including refunds of employee contributions	(81,391)	(81,391)	—
Net Changes	**$ 86,304**	**$ 204,392**	**$ (118,089)**
Balance at June 30, 2014 (MD)[1]	**$ 1,969,332**	**$ 1,562,538**	**$ 406,794**

[1] *The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense.*

[2] *Net of administrative expenses of $1,972.*

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 measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

(Dollars in thousands)	**Discount Rate -1% (6.50%)**	**Current Discount Rate (7.50%)**	**Discount Rate +1% (8.50%)**
Net Pension Liability	$ 654,299	$ 406,794	$ 198,015

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

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:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Plan for the 2013-14 measurement period is 3.2 years, which was obtained by dividing the total service years of 14,990 (the sum of remaining service lifetimes of the active employees) by 4,661 (the total number of participants: active, inactive, and retired). 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 year ended June 30, 2015, Metropolitan recognized pension expense of $21.0 million. At June 30, 2015, Metropolitan has deferred inflows of resources related to pensions as follows:

(Dollars in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 34,306	$ —
Differences between expected and actual experience	—	—
Changes of assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	—	(109,220)
Total	**$ 34,306**	**$ (109,220)**

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal year ended June 30, 2015. The $34.3 million reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

The net differences between projected and actual earnings on pension plan investments will be recognized in future pension expense as follows:

(Dollars in thousands)		Deferred Inflows of Resources
Fiscal year ending June 30,		
2016	$	(27,305)
2017		(27,305)
2018		(27,305)
2019		(27,305)

Fiscal Year 2014 Pension Disclosures

(e) Funding Policy

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2014 was 16.306 percent. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. In the first quarter of fiscal year 2014, Metropolitan made a single payment of $32.8 million for the entire fiscal year 2014 employer contribution.

(f) Annual Pension Cost and Net Pension Obligation

For fiscal year 2014, Metropolitan's annual pension cost and contribution made were $47,355,000, (including earnings credit in 2014 for the single payment at the beginning of the year). The annual pension cost included $13,503,000 for Metropolitan's pickup of the employee's 7.0 percent share at June 30, 2014. The required contribution for fiscal year 2014 was based on CalPERS June 30, 2011 actuarial valuation using the actuarial assumptions discussed in footnote 7(b). For fiscal year 2013, Metropolitan's annual pension cost and contribution made were $40,736,000. The annual pension cost included $12,755,000 for Metropolitan's pickup of the employee's 7.0 percent share.

Two-Year Trend Information for CalPERS

(Dollars in millions)		Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation (Asset)
Year ended June 30:					
2013	$	40,736	100%	$	—
2014	$	47,355	100%	$	—

g) Funded Status and Funding Progress

As of June 30, 2012 actuarial valuation date, the plan was 85.0 percent funded. The actuarial accrued liability for benefits was $1,730.9 million, and the actuarial value of assets was $1,471.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $259.5 million. The covered payroll (annual payroll of active employees covered by the plan) was $184.7 million, and the ratio of the UAAL to the covered payroll was 140.5 percent. This valuation reflects changes to the method for calculating the actuarial value of assets. These changes phase in over a three-year period the impact of the 24.0 percent investment loss experienced by CalPERS in fiscal year 2009.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) Plan Description

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 CalPERS California Employers' Retiree Trust (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. This benefit was provided to 1,528 and 1,490 retired Metropolitan employees at June 30, 2015 and 2014, 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

Contribution requirements are negotiated between Metropolitan and its various bargaining units. During fiscal year 2014, 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 2015 and 2014, Metropolitan contributed, net of participant contributions as determined by CalPERS, $79,457,000 and $103,851,000, respectively.

The fiscal year 2015 contribution included $50.0 million of the remaining $100.0 million board-approved funding from April 2014. In addition, Metropolitan made a single payment of $29.5 million for the fiscal year 2015 annual required contribution (ARC). In Metropolitan's fiscal years 2015 and 2016 biennial budget the Board approved full funding of the annual required contribution (ARC), and subject to Board approval, it is Metropolitan's intent to fund the full ARC for all future years.

The fiscal year 2014 contribution included the Board approved budgeted contributions of $5.0 million and $10.0 million for fiscal years 2013 and 2014, respectively, plus an additional $25.0 million Board approved funding in fiscal year 2013. These amounts made up the $40.0 million initial deposit to the irrevocable OPEB trust established with CalPERS in September 2013. In April 2014 the Board approved an additional $100.0 million contribution to the trust fund. The first $50.0 million was included in the fiscal year 2014 contribution amount.

(c) Annual OPEB Cost and Net OPEB Obligation

Metropolitan's annual other postemployment benefit (OPEB) cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a defined period. In fiscal year 2008, a 30-year fresh start amortization replaced the previous fiscal year's 20-year amortization period. Gains and losses were amortized over an open 15-year period.

The annual OPEB cost and net OPEB obligation at June 30, 2015, and the two preceding fiscal years, were as follows:

	June 30,		
(Dollars in Thousands)	**2015**	2014	2013
Annual required contribution	**$ 29,457**	$ 39,910	$ 53,457
Interest on net OPEB obligation	**13,317**	14,235	7,255
Adjustment to annual required contribution	**(15,126)**	(11,320)	(12,404)
Annual OPEB cost	**27,648**	42,825	48,308
Contributions made	**(79,457)**	(103,851)	(13,181)
(Decrease) increase in net OPEB obligation	**(51,809)**	(61,026)	35,127
Net OPEB obligation, beginning of year	**135,323**	196,349	161,222
Net OPEB obligation, end of year	**$ 83,514**	$ 135,323	$ 196,349

For fiscal years 2015 and 2014, Metropolitan's annual OPEB cost was $27,647,000 and $42,825,000, respectively. In fiscal year 2015, Metropolitan contributed $79,457,000 to the OPEB trust, which included the pay-as-you-go amount of $13,002,000. In fiscal year 2014, Metropolitan contributed $90,795,000 to the OPEB trust in addition to the pay-as-you-go amount of $13,056,000. In fiscal year 2013, contribution made was equal to the pay-as-you-go amount. These contributions represented 287.4, 242.5, and 27.3 percent of the annual OPEB cost in fiscal years 2015, 2014, and 2013, respectively. Adjustments to the ARC include amortization of the unfunded UAAL and actuarial gains and losses. The amortization period for the unfunded UAAL is 23 years closed and the amortization period of actuarial gains and losses is 15 years closed. The required contribution for fiscal year 2015 was based on the June 30, 2013 actuarial valuation using the entry-age-normal actuarial cost method with contributions determined as a level percent of pay. The actuarial assumptions included (a) a 7.25 percent investment rate of return, (b) a 3.0 percent inflation component, and (c) healthcare cost trend rates as follows: (i) Medicare – starting at 8.33 percent, grading down to 5.0 percent over seven years, (ii) Non-Medicare – starting at 8.0 percent, grading down to 5.0 percent over seven years. The required contribution for fiscal year 2014 was based on the June 30, 2011 actuarial valuation using the entry-age-normal actuarial cost method with contributions determined as a level percent of pay. The actuarial assumptions included (a) a 7.25 percent investment rate of return, (b) a 3.0 percent inflation component, and (c) healthcare cost trend rates as follows: (i) Medicare – starting at 9.4 percent, grading down to 5.0 percent over nine years, (ii) Non-Medicare – starting at 9.0 percent, grading down to 5.0 percent over nine years. The assumptions used in the actuarial valuations are subject to future revisions as actual results are compared to past expectations and new assumptions are made about the future.

(d) Funded Status and Funding Progress

The funded status of the plan at June 30, 2013, was as follows:

(Dollars in thousands)	
Actuarial accrued liability (AAL)	$ 315,326
Actuarial value of plan assets	—
Unfunded actuarial accrued liability (UAAL)	$ 315,326
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$ 188,137
UAAL as a percentage of covered payroll	167.6%

Actuarial valuations of the ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The schedule of funding progress, presented as RSI following the notes to basic financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

9. COMMITMENTS AND CONTINGENCIES

(a) State Water Contract (see Note 10)

Estimates of Metropolitan's share of the projected fixed costs of the State Water Project (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:	
2016	$ 474,816,362
2017	471,834,847
2018	458,338,275
2019	451,935,260
2020	452,230,726

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	$ 4,687,931,323
Conservation facilities	2,875,602,720
Off-aqueduct power facilities (see Note 9f)	42,777,982
East Branch enlargement	476,433,984
Revenue bond surcharge	588,869,660
Total long-term SWP contract commitments	$ 8,671,615,669

Metropolitan intends to exercise its option to extend its agreement with the State through 2052, which will result in annual minimum operations and maintenance costs through 2052. 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, other than the $18.0 million obligation related to loss accruals on certain-off aqueduct power facilities (see Note 9f), 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 (Delta Vision Committee) tasked with developing a durable vision for sustainable management of the Delta over the long-term. The Delta Vision is anticipated to broaden the focus of past efforts and recommend actions that will address the full array of natural resource, infrastructure, land use, and governance issues necessary to achieve a sustainable Delta. The BRTF released its final Delta Vision Strategic Plan in October 2008. The Delta Vision Committee considered the BRTF's final strategic plan and submitted its final implementation report to the Governor in January 2009. Subsequently, the Delta Reform Act of 2009 was enacted, which created the Delta Stewardship Council, 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 DSC formed an Implementation Committee of agency representatives in 2014 to coordinate activities and actions with the goal of achieving successful implementation of the Delta Plan. In addition, the DSC is charged with developing a Delta Levee Investment Strategy (DLIS), and on May 28, 2015, the DSC issued the Notice of Preparation for the Draft Environmental Impact Report for the DLIS. The DLIS will identify priorities for levee rehabilitation and associated funding priorities, taking into account land uses, economic factors, and State needs. This investment strategy will be developed in collaboration with various state agencies and other important stakeholders and will be based on the best available data, research, and lessons learned from other state and local programs and planning efforts.

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 will provide the basis for permits under federal and state endangered species laws for activities covered by the plan based on the best available science, identify sources of funding, and provide for an adaptive management and monitoring program. On April 30, 2015, new alternatives separating the conveyance facilities and habitat restoration measures into two separate efforts namely: California WaterFix and California EcoRestore were announced. Under the California WaterFix, the new water conveyance facilities with proposed design changes would be constructed and operated. With the California EcoRestore, the focus is on restoration programs, which would include projects and actions that comply with pre-existing regulatory requirements designed to improve the overall health of the Delta. The alternate Endangered Species Act permitting approach, the proposed conveyance facilities in the California WaterFix, and the California EcoRestore Program are currently being evaluated in the partially Recirculated Draft EIR/EIS released on July 10, 2015. The public comment period ends on October 30, 2015.

(c) Imperial Irrigation District

As of June 30, 2015, Metropolitan had advanced to the Imperial Irrigation District (IID) a total of $300.5 million 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 87,820-107,820 acre-feet in 2015 and 85,000-105,000 acre-feet of water annually thereafter depending upon the amount used by the Coachella Valley Water District. A total of at least 87,820 and 84,305 acre-feet will be/was available in calendar years 2015 and 2014, 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 (QSA) (see Note 9e). The amended Transfer Agreement sets the maximum transfer amount at 205,000 acre-feet in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200,000 acre-feet per year beginning in 2023.

No facilities exist to provide for delivery of water directly from IID to SDCWA. The Transfer Agreement provides that IID water be delivered to SDCWA through existing facilities owned by Metropolitan. On November 10, 1998, the boards of directors of Metropolitan and SDCWA authorized execution of an exchange contract, pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals. Metropolitan delivers an equal volume of water from its own sources of supply through portions of its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. In consideration for the conserved water made available to Metropolitan by SDCWA, a lower rate is paid by SDCWA for the exchange water delivered by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan's Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities (see 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 new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014 (see Note 9h). On May 30, 2014, SDCWA filed a lawsuit challenging the rates adopted by Metropolitan on April 8, 2014 and effective on January 1, 2015 and January 1, 2016. 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.

(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, the Coachella Valley Water District (CVWD), and Metropolitan. It also provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years and restores the opportunity for Metropolitan to receive any special surplus water.

On February 11, 2010, the Sacramento Superior Court issued its judgment in consolidated cases filed to determine or challenge the validity of the QSA and associated agreements. The court ruled that the QSA Joint Powers Agreement (pursuant to which IID, CVWD and SDCWA agreed to commit $163.0 million toward certain mitigation and restoration costs associated with implementation of the QSA and related agreements, and the State agreed to be responsible for any costs exceeding this amount) was invalid because the State's commitment was unconditional in nature and, as such, violated the State's debt limitation under the California Constitution. The court also invalidated eleven other agreements, including the QSA, because they were inextricably interrelated with the QSA Joint Powers Agreement.

In March 2010, Metropolitan, IID, CVWD, SDCWA, the State and others filed notices of appeal challenging various aspects of the trial court's ruling. On December 7, 2011, the court of appeal issued its ruling reversing, in part, the trial court's ruling. In particular, the court of appeal held the QSA Joint Powers Agreement to be constitutional. The court of appeal also rejected other challenges to this agreement and remanded the matter back to the trial court for further proceedings on the claims that had been dismissed as moot. A two-day bench trial was held on November 13, 2012. On June 4, 2013 the trial court issued its ruling, holding that IID had acted within its authority in executing these agreements and had complied with all substantive and procedural requirements imposed under State law. In addition, the court held that the environmental reviews conducted in support of the QSA and related agreements complied with the California Environmental Quality Act and its implementing regulations in all respects. In short, the trial court rejected all of the claims asserted by opponents of the QSA. The court issued a final statement of decision and entered a final judgment on July 31, 2013. A number of parties, including the County of Imperial and the Imperial County Air Pollution Control District, have filed appeals challenging this decision on various grounds. The court of appeal subsequently accepted a settlement agreement and issued an order dismissing three parties from further proceedings. As a result, the only remaining QSA opponents involved in the state appellate proceeding are the County of Imperial and the Imperial County Air Pollution Control District. No date for oral argument has been set. The impact, if any that this litigation might have on Metropolitan's water supplies cannot be adequately determined at this time.

(f) Abandoned Off-Aqueduct Power Facilities

The California Department of Water Resources (DWR) has financed the construction of certain off- aqueduct power facilities in order to provide power for water transportation purposes for the State Water Project system. Two geothermal facilities have been abandoned by DWR due to insufficient steam supply to operate the plants at their planned capacities. As a result of these actions by DWR, Metropolitan recorded losses of $204.1 million in prior fiscal years. Metropolitan's estimated remaining long-term contractual obligations for these facilities as of

June 30, 2015, which are based on the State's latest estimates, including average interest of 5.2 percent through the year 2027, are shown in the following table (see Note 6):

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2016	$ 3,276	$ 946	$ 4,222
2017	3,181	768	3,949
2018	1,227	599	1,826
2019	1,279	537	1,816
2020	1,496	473	1,969
2021-2025	7,244	976	8,220
2026-2027	290	25	315
Total obligations	17,993	$ 4,324	$ 22,317
Less current portion	(3,276)		
Long-term portion of obligations	$ 14,717		

(g) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2016 through 2020 totals approximately $1.3 billion.

Over the next three years, approximately $750.0 million is budgeted in the capital program, with over $275.0 million planned for major projects such as the Weymouth Oxidation Retrofit Program (ORP), Chlorine Containment at the Chemical Unloading Facility, Diemer Basin Rehabilitation, Lakeview Pipeline Refurbishment, Palos Verdes Reservoir Floating Cover Replacement, Second Lower Feeder PCCP Refurbishment, Diemer Filter Building Upgrades, and Weymouth Filter Rehabilitation.

The capital program also includes $80.0 million of estimated costs for facilities that may be required to meet current water quality standards (see Note 9i).

Metropolitan had commitments under construction contracts in force as follows:

(Dollars in thousands)	June 30, 2015	2014
Oxidation retrofit project	**$ 13,514**	$ 41,196
Weymouth plant power system upgrade	**10,535**	—
La Verne maintenance shops upgrade	**—**	2,716
Yorba Linda power plant turbine-generator	**317**	3,305
Jensen module no. 1 filter surface wash system upgrade	**—**	2,909
Diemer butterfly valve replacement	**41**	—
Diemer electrical improvements	**3,353**	9,523
Weymouth filter buildings seismic upgrades	**—**	944
Weymouth backup domestic water pipeline replacement	**—**	139
Second lower feeder PCCP repair	**—**	5,967
Etiwanda pipeline north liner repair	**—**	2,556
Jensen washwater tanks seismic upgrades	**507**	2,967
Second lower feeder stray current mitigation	**—**	73
Sepulveda feeder south reach stray current mitigation	**—**	528
Chemical unloading facility chlorine containment and handling facilities	**15,407**	21,754
Inland feeder and Lakeview pipeline intertie	**446**	19,700
Weymouth filter rehabilitation	**30,758**	—
Diemer east filter upgrades	**8,541**	—
Jensen module 1 filter valve replacement	**3,078**	—
LADWP lagoon replacement	**2,881**	—
Mills industrial wastewater handling improvement	**2,385**	—
Hinds and Eagle mountain pumping plants washwater system replacement	**1,915**	—
Emergency radio communication system replacement	**1,011**	—
Weymouth east washwater tank seismic upgrades	**1,465**	—
Diemer south slope revegetation and mitigation	**858**	—
Jensen solids transfer system	**309**	—
Other	**3,479**	3,725
Total	**$ 100,800**	$ 118,002

These commitments are being financed with operating revenues and debt financing.

(h) 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 State Water Contract costs to the System Access Rate and the System Power Rate, and thus affecting charges for transportation of water, resulting in an alleged overcharge to SDCWA by at least $24.5 million per year. The complaint alleges that all State Water Project costs should be allocated instead to Metropolitan’s Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It states additionally that Metropolitan will overcharge SDCWA by another $5.4 million per year by including the Water Stewardship Rate in transportation charges.

The complaint requested a court order invalidating the rates and charges adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with State Water Project supplies and the Water Stewardship Rate to water supply charges. Rates in effect in prior years are not challenged in this lawsuit. Metropolitan contends that its rates are reasonable, equitably apportioned among its member agencies and lawful. Nevertheless, to the extent that a court invalidates Metropolitan's adopted rates and charges, Metropolitan will be obligated to reconsider and modify rates and charges to comply with any court rulings related to Metropolitan's rates. While components of the rate structure and costs may change as a result of any such rulings, Metropolitan expects that aggregate rates and charges would still recover Metropolitan's cost of service. As such, revenues would not be affected. If Metropolitan's rates are revised in the manner proposed by SDCWA in the complaint, other member agencies may pay higher rates unless other actions are taken by the Board.

SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims are for breach of the water exchange agreement between Metropolitan and SDCWA (see Note 9d) based on allegedly illegal calculation of rates; improper exclusion of SDCWA's payments under this exchange agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies and illegality of "rate structure integrity" provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contains additional allegations but no new causes of action.

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. The complaint contains allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting Metropolitan's rates, adopted in April 2012, violate Proposition 26. Metropolitan contends that its rates adopted on April 10, 2012 are reasonable, equitably apportioned among its member agencies and lawful and were adopted under a valid rate structure and cost of service approach.

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. This ruling does not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations. On December 4, 2013, the court granted Metropolitan's motion for summary adjudication of the cause of action alleging illegality of the "rate structure integrity" provision in conservation and local resources incentive agreements, dismissing this claim in the first lawsuit.

Trial of the first phase of both lawsuits concluded January 23, 2014. This phase concerned the challenges to Metropolitan's rates. On April 24, 2014, the court issued its "Statement of Decision on Rate Setting Challenges," determining that SDCWA prevailed on two of its claims and that Metropolitan prevailed on the third claim. The court found that there was not sufficient evidence to support Metropolitan's inclusion in its transportation rates, and hence in its wheeling rate, of 100% of (1) payments it makes to the California Department of Water Resources for the State Water Project, or (2) the costs incurred by Metropolitan for conservation and local water supply development programs recovered through the Water Stewardship Rate. The court found that SDCWA failed to prove its "dry-year peaking" claim that Metropolitan's rates do not adequately account for variations in member agency purchases.

SDCWA's claims asserting breach of the exchange agreement and miscalculation of preferential rights were tried in a second phase of the case which concluded April 30, 2015. On August 28, 2015, the trial court issued a final statement of decision for the second phase. The decision finds in favor of SDCWA on both claims. The trial court's ruling in the cases will be subject to appeal. Metropolitan is unable to assess at this time the likelihood of success of this litigation, any possible appeal or any future claims. Further, as the estimated liability is indeterminable at this time, no amounts have been presently recorded in the financial statements.

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

A number of other suits and claims arising in the normal course of business are pending against Metropolitan. In the opinion of Metropolitan's General Counsel, the adverse results, if any, of such legal actions on these suits and claims will not have a material effect on Metropolitan's financial position, changes in net position, or liquidity.

(i) 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 Mills, Jensen, and Skinner plants. Construction of ozonation facilities at the Diemer plant was completed in June 2013 and start-up is underway, while ozonation facilities at the Weymouth plant are under construction and should be completed in 2016. The estimated cost of implementing ozone treatment at all five plants is approximately $1.1 billion.

(j) 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, the California Department of Water Resources (DWR) entered in to 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 pays 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.

(k) 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. During fiscal year 2015, $6,000 was expended for postclosure maintenance and monitoring activities.

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, 2015 and 2014, approximately $812,000 and $813,000 net of interest receipts and disbursements were available, respectively, in this account.

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 25 percent and 26 percent of Metropolitan's total expenditures during fiscal years ended June 30, 2015 and 2014, respectively, 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.

Management's present intention is to exercise Metropolitan's option to extend the contractual period to at least 2052, under substantially comparable terms. This corresponds to an estimated 80-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 (see Note 9f).

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1h, 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 information provided by the State of California. In fiscal year 2006, the formula was modified to use maximum annual contracted deliveries as the production capacity estimate. Amortization expense totaled $112.2 million and $109.4 million in fiscal years 2015 and 2014, respectively.

11. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at June 30, 2015 and 2014 were as follows:

	June 30,	
(Dollars in thousands)	**2015**	2014
Prepaid water costs	**$ 153,765**	$ 180,306
Prepaid costs-Delta Habitat conservation and conveyance	**58,954**	58,654
Prepaid costs-Bay/Delta	**2,252**	2,357
Prepaid expenses	**10,150**	6,355
Preliminary design/reimbursable projects	**13,148**	11,002
Other	**6,112**	8,448
Total deposits, prepaid costs, and other	**244,381**	267,122
Less current portion	**(2,839)**	(2,565)
Noncurrent portion	**$ 241,542**	$ 264,557

(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 State Water Project 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, 2015 and 2014, deferred water costs totaled approximately $153.8 million and $180.3 million, respectively, based on volumes of 775,000 acre-feet and 945,000 acre-feet, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance

In March 2009, Metropolitan, other State Water Project contractors, federal Central Valley Project contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with the California Department of Water Resources (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 through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. If the BDCP is approved, including construction of new Delta water conveyance facilities, DWR intends to issue revenue bonds in an amount sufficient to reimburse Metropolitan for funds advanced through these agreements for planning and environmental studies. If the BDCP is not approved to proceed with construction, no reimbursement will occur.

(c) Prepaid Costs—Bay/Delta

In December 1994, representatives from state and federal resource agencies, and urban, agricultural, and environmental agencies agreed to a set of principles to implement a protection plan for the San Francisco Bay/Delta Estuary. Among the principles was a commitment by agricultural and urban water agencies to fund $60.0 million to help initiate a comprehensive program to address nonoutflow-related impacts to the Bay/Delta environment. The Secretary of the Interior requested Metropolitan to guarantee $10.0 million annually for three years, for a total of $30.0 million, to be made available for the restoration fund created by the principles. Metropolitan's final payment of its $30.0 million commitment was made in June 1998. Metropolitan's contributions are accounted for as prepaid costs that are charged to expense based on expenses by the restoration fund. The amount charged to expense totaled $105,000 and $218,000 for fiscal years ended June 30, 2015 and 2014, respectively. During fiscal year 2001, Metropolitan became trustee for the unspent funds, which totaled $2.3 million and $2.4 million at June 30, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, 1,547 and 1,555 employees 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. 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:

	June 30,			
(Dollars in thousands)		**2015**		2014
Employees	**$**	**19,829**	$	19,415
Metropolitan		**8,120**		7,839
	$	**27,949**	$	27,254
Eligible payroll	**$**	**204,786**	$	199,815
Employee contributions as percent of eligible payroll		**9.7%**		9.7%

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. Metropolitan's capital assets, including State Water Project costs include plant and equipment (Notes 1g and 2), participation rights in State Water Project (Notes 1h, 2, and 10), and participation rights in other facilities (Notes 2 and 4). Net investment in capital assets, including State Water Project costs were approximately $5.7 billion and $5.6 billion at June 30, 2015 and 2014, respectively.

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 $442.0 million and $319.3 million at June 30, 2015 and 2014, respectively, of which $263.2 million and $171.6 million, respectively, is related to bond covenants. The remaining $178.8 million and $147.7 million, respectively, relates to estimated operating and maintenance expense for July and August of the subsequent fiscal year.

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 $738.9 million and $1,288.7 million at June 30, 2015 and 2014, respectively.

14. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to design, construction, treatment, and delivery of water resources. Metropolitan self-insures most Metropolitan property losses, the first $25.0 million for general liability and $5.0 million for workers' compensation. Metropolitan supplements its self-insurance program with $75.0 million excess general liability coverage and $50.0 million excess workers' compensation insurance. Additional excess liability policies also purchased include $60.0 million for fiduciary liability and $65.0 million for directors' and officers' liability. Special insurance policies purchased 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 2015 were unchanged from fiscal year 2014. 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% annual interest rate over the life of the claims. Changes in the balances of claims liabilities during the past two fiscal years were as follows:

	June 30,		
(Dollars in Thousands)	**2015**	2014	2013
Unpaid claims, beginning of fiscal year	**$ 27,352**	$ 27,239	$ 26,655
Incurred claims (including IBNR)	**7,951**	9,184	6,611
Claim payments and adjustments	**(15,505)**	(9,071)	(6,027)
Unpaid claims, end of fiscal year	**19,798**	27,352	27,239
Less current portion	**(9,500)**	(15,500)	(16,200)
Noncurrent portion	**$ 10,298**	$ 11,852	$ 11,039

15. SUBSEQUENT EVENTS

On July, 1, 2015, Metropolitan issued $188,900,000 Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1 and A-2, at variable rates, to refund $88,800,000 of Water Revenue Bonds, 2000 Authorization, Series B-4, $75,620,000 of Water Revenue Bonds, 2005 Authorization, Series A, and $29,820,000 of Water Revenue Refunding Bonds, 2012 Series E-2 (Term Mode). Their maturities extend to July 1, 2035 and are subject to optional and mandatory redemption provisions.

On July 1, 2015, Metropolitan entered in to a Revolving Credit Agreement (RCA), by which Metropolitan may borrow up to $180,000,000 to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. The RCA permits repayment of any borrowed funds over a term-out period beginning, with the first business day of the first completed calendar month, following 90 days after the stated expiration date of June 24, 2018. All repayment of such borrowed funds must be repaid by the Term Out Maturity Date, which is 364 days after the stated expiration date.

On November 18, 2015, the Superior Court of California, County of San Francisco issued the Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. The decision finds in favor of SDCWA on both claims and that SDCWA is entitled to damages in the amount of $188,295,602. In addition, the trial court granted SDCWA's motion for prejudgment interest at the statutory rate of 10% on these damages. The prejudgment interest award through the end of September 2015 is $44,139,469. On November 19, 2015, Metropolitan filed a Notice of Appeal of the Judgment and Writ in each case. See further discussion of this matter in footnote 9(h), Commitments and Contingencies – Claims and Litigation.

Schedule of Changes in Net Pension Liability and Related Ratios

(Dollars in thousands)		2015 [1]
TOTAL PENSION LIABILITY		
Service cost	$	28,505
Interest on total pension liability		139,190
Benefit payments, including refunds of employee contributions		(81,391)
Net change in total pension liability		86,304
Total pension liability - beginning		1,883,028
Total pension liability - ending (a)	$	1,969,332
PLAN FIDUCIARY NET POSITION		
Contribution - Employer	$	33,852
Contribution - Employee		15,185
Net investment income[2]		236,746
Benefit payments, including refunds of employee contributions		(81,391)
Net change in fiduciary net position		204,392
Plan fiduciary net position - beginning		1,358,145
Plan fiduciary net position - ending (b)	$	1,562,538
Plan net pension liability - ending (a) - (b)	$	406,794
Plan fiduciary net position as a percentage of the total pension liability		79.34%
Covered-employee payroll	$	210,124
Plan net pension liability as a percentage of covered-employee payroll		193.60%

[1] *Historical information is required only for measurement periods for which GASB 68 is applicable.*

[2] *Net of administrative expenses of $1,972.*

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, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes of Assumptions: There were no changes in assumptions.

Schedule of Plan Contributions[1]

(Dollars in thousands)		2015
Actuarially determined contribution	$	34,306
Contributions in relation to the actuarially determined contribution		(34,306)
Contribution deficiency (excess)	$	—
Covered-employee payroll	$	210,124
Contributions as a percentage of covered-employee payroll		16.33%

[1] *Historical information is required only for measurement periods for which GASB 68 is applicable.*

Notes to Schedule:

Valuation date: June 30, 2012

Methods and assumptions used to actuarially determine contributions rates for fiscal year 2015:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level of percent of payroll/22 years as of the Valuation Date
Asset Valuation Method	15 year smoothed market
Inflation	2.75%
Salary Increases	Merit scale by duration of employment and assumed inflation growth of 2.75% and annual production growth of .25%
Payroll Growth	3.00%
Investment Rate of Return	7.50% (net of administrative expenses)
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Funding Progress of Pension Plan

The table below provides a history of the funded status of Metropolitan's pension plan.

(Dollars in thousands)

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
June 30:						
2010	$ 1,563,506	$ 1,351,073	$ 212,433	86.4%	$ 192,519	110.3%
2011	$ 1,674,274	$ 1,415,596	$ 258,678	84.5%	$ 190,711	135.6%
2012	$ 1,730,939	$ 1,471,410	$ 259,529	85.0%	$ 184,657	140.5%

Funding Progress of Other Postemployment Benefits

The table below provides a history of the funded status of Metropolitan's OPEB obligation. The information reflects the most recent biennial actuarial valuation and the preceding biennial valuations.

(Dollars in thousands)

Actuarial Valuation Date	Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
1/1/11	$ 545,476	$ —	$ 545,476	0.00%	$ 187,368	291.1%
6/30/11	$ 367,719	$ —	$ 367,719	0.00%	$ 179,242	205.2%
6/30/13*	$ 315,326	$ —	$ 315,326	0.00%	$ 182,937	172.4%

* Most recent actuarial valuation date.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Basic Financial Statements

Three Months ended September 30, 2015 and 2014

(Unaudited)

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UNAUDITED
September 30, 2015 and 2014

The following discussion and analysis of The Metropolitan Water District of Southern California's (Metropolitan) financial performance provides an overview of the financial activities as of and for the three months ended September 30, 2015 and 2014. 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 generally accepted accounting principles 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 costs and principal and interest payments on borrowed money. Certain amounts reported in fiscal years 2015 and 2014 have been reclassified to conform to the fiscal year 2016 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2015, Metropolitan implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pension - an amendment of GASB Statement No. 27*, which addresses the accounting and financial reporting for pensions. Metropolitan also implemented Governmental Accounting Standards Board Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which resolves transition issues in GASB 68. Metropolitan did not restate the financial statements for the fiscal years ended June 30, 2014 and 2013 because the necessary actuarial information from the California Public Employees' Retirement System was not provided for the prior years presented. As of July 1, 2014, Metropolitan restated beginning net position in the amount of $491.0 million to record the beginning deferred pension contributions and net pension liability.

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

(Dollars in millions)	September 30, 2015	2014	2013
Assets and deferred outflows of resources			
Capital assets, net	**$ 10,433.5**	$ 10,177.9	$ 10,147.4
Other assets and deferred outflows of resources	**2,084.2**	2,460.7	2,332.9
Total assets and deferred outflows of resources	**12,517.7**	12,638.6	12,480.3
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	**4,722.8**	4,583.7	4,830.8
Current liabilities and deferred inflows of resources	**893.5**	701.5	676.3
Total liabilities and deferred inflows of resources	**5,616.3**	5,285.2	5,507.1
Net position			
Net investment in capital assets, including State Water Project costs	**6,043.0**	5,597.3	5,466.5
Restricted	**278.1**	247.3	277.5
Unrestricted	**580.3**	1,508.8	1,229.2
Total net position	**$ 6,901.4**	$ 7,353.4	$ 6,973.2

Capital Assets, Net

Net capital assets include plant, participation rights, and construction work in progress, net of accumulated depreciation and amortization.

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. At September 30, 2015, net capital assets totaled $10.4 billion, or 83.4 percent, of total assets and deferred outflows of resources, and were $255.6 million higher than the prior year. The increase was primarily due to a $255.8 million Board approved land purchase in the Palo Verde Irrigation District (PVID) in July 2015. This increase was partially offset by Metropolitan's continued expenditures on the capital investment plan (CIP) and net capital payments for participation rights in the State Water Project, offset by depreciation and amortization. In fiscal year 2015, Metropolitan reassessed the useful lives of its plant assets and determined that the future benefit of certain assets was less than previously expected therefore the carrying value of the assets were adjusted resulting in additional depreciation expense of $104.4 million. CIP expenditures for the twelve months ended September 30, 2015, excluding the land purchase, totaled $231.6 million (including $5.8 million of capitalized interest) and are described in the capital assets section below.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. At September 30, 2014, net capital assets totaled $10.2 billion, or 80.5 percent, of total assets and deferred outflows, and were $30.5 million higher than the prior year. This net increase represents Metropolitan's continued expenditures on the CIP and net capital payments for participation rights in the State Water Project, partially offset by depreciation and amortization. CIP expenditures for the twelve months ended September 30, 2014 totaled $177.3 million (including $5.5 million of capitalized interest) and are described in the capital assets section below.

Other Assets and Deferred Outflows of Resources

Other assets and deferred outflows of resources include accounts receivable, inventories, prepaid costs, deferred outflows related to loss on bond refundings and swap terminations, deferred outflows for pension contributions, deferred outflows for effective interest rate swaps, and cash and investments.

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. At September 30, 2015, other assets and deferred outflows totaled $2.1 billion and were $376.5 million lower than the prior year. Included in the decrease were $318.5 million of lower cash and investments primarily due to $255.8 million of land purchase, $56.1 million lower water sales receivable as fiscal year 2016 August and September sales were 92.9 thousand acre-feet (TAF) less than the prior year's comparable months, and $37.7 million lower prepaid water costs due to a reduction in water storage of 190.9 TAF. These decreases were offset by $34.3 million of deferred outflows for pension contribution due to the implementation of GASB 68 and GASB 71.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. At September 30, 2014, other assets and deferred outflows totaled $2.5 billion and were $127.8 million higher than the prior year. Cash and investments increased $226.1 million primarily due to $193.7 million of additional cash collected from higher water sales over the prior year. The increase in water sales reflected $115.8 million, or 167.0 TAF, of higher volumes sold and $77.9 million related to higher prices. This increase was partially offset by lower water in storage primarily due to 390.7 TAF, or $32.0 million, of stored water that was drawn down and $30.8 million of lower deferred outflow of effective swaps due to a $15.5 million and $15.8 million early termination of swaps in February 2014 and August 2014, respectively. In addition, water sales receivable decreased $18.3 million due to 16.2 TAF less water sales than the comparable prior year period.

Long-term Liabilities, Net of Current Portion

Long-term liabilities, net of current portion include long-term debt, customer deposits and trust funds, net pension liability, postemployment benefits other than pensions (OPEB), accrued compensated absences, obligations for off-aqueduct facilities, workers' compensation and third party claims, fair value of interest rate swaps, and other long-term obligations.

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. At September 30, 2015, long-term liabilities, net of current portion, totaled $4.7 billion and were $139.1 million higher than the prior year. The implementation of GASB 68 resulted in the first time recording of a $406.8 million net pension liability. Offsetting this new liability was $288.9 million reduction in long-term debt primarily due to scheduled principal payments of $219.1 million and a $21.1 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded. See the long-term debt section below for additional information.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. At September 30, 2014, long-term liabilities, net of current portion, totaled $4.6 billion and were $247.1 million lower than the prior year. There was a reduction in long-term debt of $131.6 million which was primarily due to principal pay down resulting from regular maturities of $127.9 million. In addition, OPEB decreased $100.0 million primarily due to fiscal years 2014 board-approved contributions deposited into an irrevocable trust established in September 2013. See the long-term debt section below for additional information.

Current Liabilities and Deferred Inflows of Resources

Current liabilities and deferred inflows of resources represent current liabilities that are due within one year and deferred inflows on earnings on pension plan investments. Current liabilities include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. At September 30, 2015, current liabilities and deferred inflows of resources totaled $893.5 million, and were $192.0 million higher than the prior year. Included in the increase were $109.2 million of deferred inflows of resources, which represents the net difference between projected and actual earnings on pension plan investments that will be amortized as a component of pension expense over the remaining 4 years. In addition, current portion of long-term debt increased as the $87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds will not covered by the Revolving Credit Agreement that is expiring on March 31, 2016.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. At September 30, 2014, current liabilities totaled $701.5 million, and were $25.2 million higher than the prior year. Included in the increase were $70.2 million more of accounts payable and accrued expenses primarily due to a $59.3 million increase in operating and maintenance costs on the State Water Project. Partially offsetting this increase was $51.4 million less in current portion of long-term debt which was primarily due to $31.6 million of July 1, 2014 principal payments that were paid in May 2014.

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 State Water Project, offset by debt issued for these purposes.

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. At September 30, 2015, net investment in capital assets, including State Water Project costs totaled $6.0 billion and was $445.7 million more than the prior year due to the $255.8 million land purchase and the reduction in outstanding debt.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. At September 30, 2014, net investment in capital assets, including State Water Project participation rights, totaled $5.6 billion and was $130.8 million more than the prior year due to the reduction in outstanding debt.

Restricted Net Position

Restricted net position includes amounts restricted for debt service payments and operating expenses, both of which are required by bond covenants.

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. At September 30, 2015, restricted net position totaled $278.1 million which was $30.8 million higher than fiscal year 2015. The increase was primarily due to a Board approved $44.4 million supply program contract with Southern Nevada Water Authority (SNWA) wherein Metropolitan will receive 150 TAF of unused SNWA water. This amount was included in restricted net position as it is anticipated it will be paid in November 2015. Estimated operating and maintenance expenditures in the two months subsequent to the quarter are a component of restricted net position. Partially offsetting this decrease was $16.4 million of lower restricted for debt services due to the reduction in outstanding debt.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. At September 30, 2014, restricted net position totaled $247.3 million which was $30.2 million lower than fiscal year 2014 primarily due to $25.4 million of lower restricted for debt service as a result of bond refunding transactions during the year that lowered the bond interest, principal and reserve 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.

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. Unrestricted net position of $580.3 million decreased $928.5 million from the prior year. In July 2015, Metropolitan purchased $255.8 million of land reducing unrestricted net position. In addition, in fiscal year 2015, Metropolitan implemented GASB 68, which resulted in the recording of $406.8 million of net pension liability and deferred inflows of resources of $109.2 million. Partially offsetting this decrease is the twelve months ended September 30, 2015 net income before contributions of $36.7 million.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. Unrestricted net position of $1.5 billion increased $279.6 million from the prior year due to the twelve months ended September 30, 2014 income before capital contributions of $378.4 million.

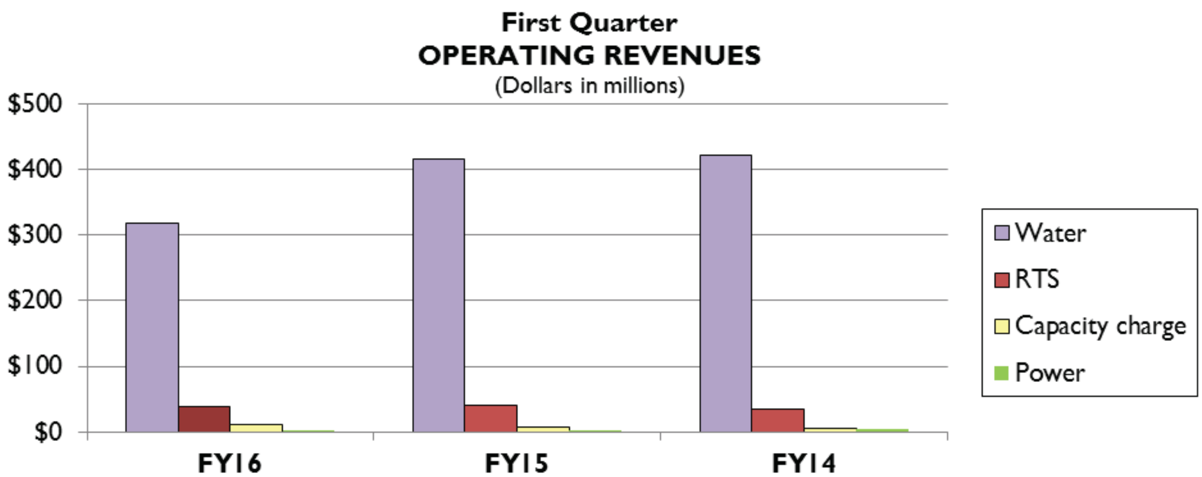
CHANGES IN NET POSITION

Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	Three Months Ended September 30,		
(Dollars in millions)	**2015**	2014	2013
Water sales	**$ 318.6**	$ 415.0	$ 421.1
Readiness-to-serve charges	**39.5**	41.5	35.5
Capacity charge	**10.9**	7.8	6.4
Power sales	**1.6**	1.0	4.7
Operating revenues	**370.6**	465.3	467.7
Taxes, net	**26.2**	25.0	23.1
Investment income (loss)	**5.1**	(13.2)	4.0
Other, net	**3.3**	—	0.2
Nonoperating revenues	**34.6**	11.8	27.3
Total revenues	**405.2**	477.1	495.0
Power and water costs	**(134.0)**	(106.1)	(129.4)
Operations and maintenance	**(153.1)**	(120.6)	(103.8)
Depreciation and amortization	**(66.2)**	(64.2)	(63.9)
Operating expenses	**(353.3)**	(290.9)	(297.1)
Bond interest, net of amount capitalized	**(30.8)**	(33.1)	(24.9)
Other, net	**(1.3)**	(0.7)	(0.4)
Nonoperating expenses	**(32.1)**	(33.8)	(25.3)
Total expenses	**(385.4)**	(324.7)	(322.4)
Income before contributions	**19.8**	152.4	172.6
Contributed capital	**—**	—	0.4
Changes in net position	**19.8**	152.4	173.0
Net position, at June 30,	**6,881.6**	7,201.0	6,800.2
Net position, at September 30,	**$ 6,901.4**	$ 7,353.4	$ 6,973.2

Operating Revenues

Metropolitan's principal source of revenue is from water sales, 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.



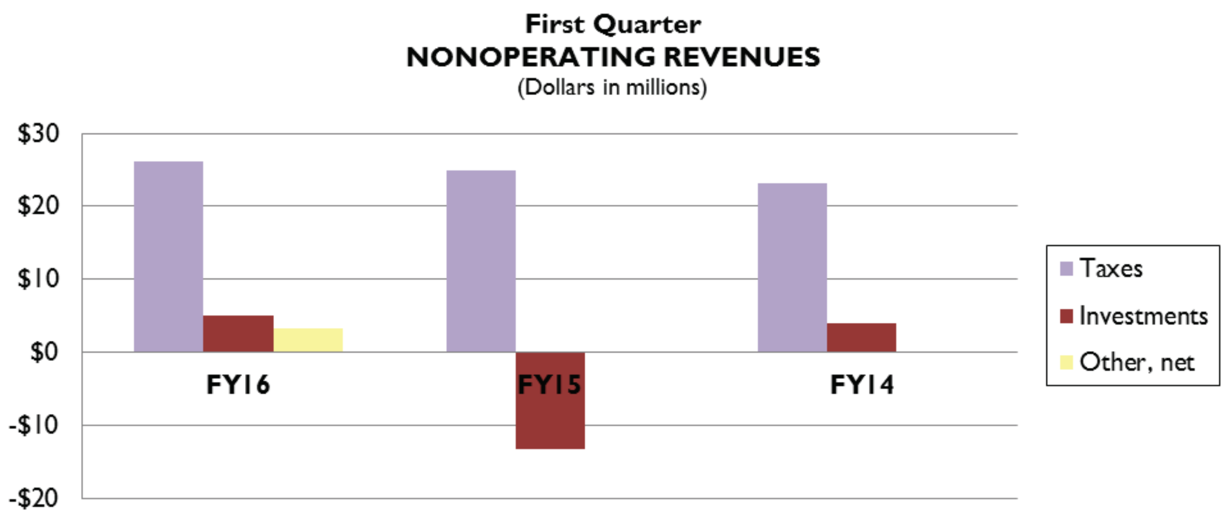
Analytical Review of Operating Revenues

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. For the three months ended September 30, 2015, operating revenues were $370.6 million or $94.7 million less than the prior year primarily due to $96.4 million of lower water sales, of which $97.2 million related to 133.6 TAF of lower volumes sold offset by $0.8 million from higher rates. The reduction in water sales were primarily due to the Governor's requirement that retail water agencies implement conservation programs to reduce water consumption by an average of 25% statewide.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. For the three months ended September 30, 2014 operating revenues were $465.3 million or $2.4 million less than the prior year. The decrease includes $6.1 million of lower water sales, of which $9.3 million related to 12.9 TAF of lower volumes sold offset by $3.2 million from higher rates and $3.7 million of lower power sales due to lower power generation as a result of reduced State Water Project deliveries. These decreases were offset by $6.0 million of higher readiness-to-serve charges due to a higher rate.

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.



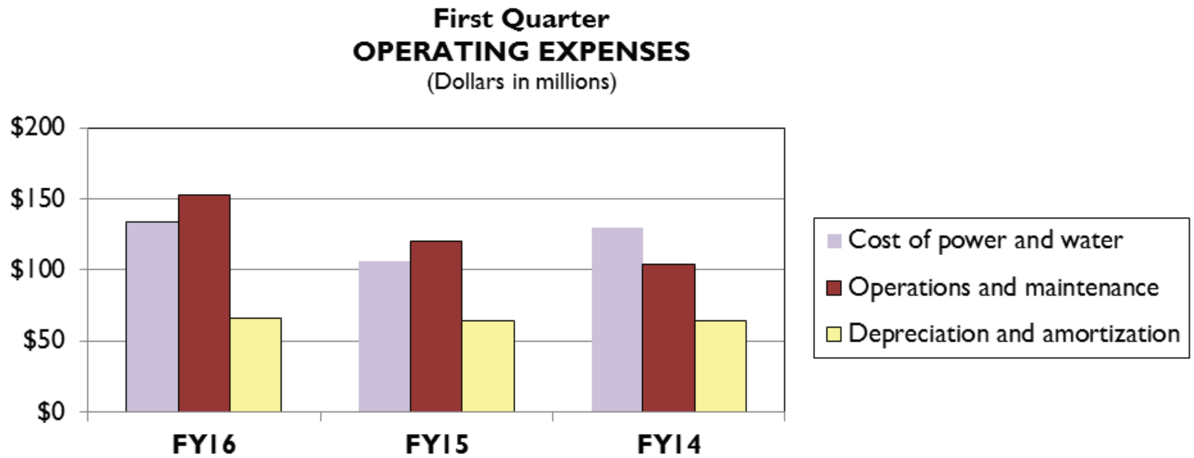
Analytical Review of Nonoperating Revenues

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. Nonoperating revenues for the three months ended September 30, 2015 totaled $34.6 million and were $22.8 million higher than the prior year. Investment income increased $18.3 million primarily due to the fact that the $15.8 million loss on swap termination (noted below) did not occur in the current year.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. Nonoperating revenues for the three months ended September 30, 2014 totaled $11.8 million and were $15.5 million lower than the prior year. The decrease included $17.2 million of lower investment income primarily due to $15.8 million loss on swap termination.

Operating Expenses

Operating expenses fall into three primary cost areas: power and water, operations and maintenance, and depreciation and amortization.



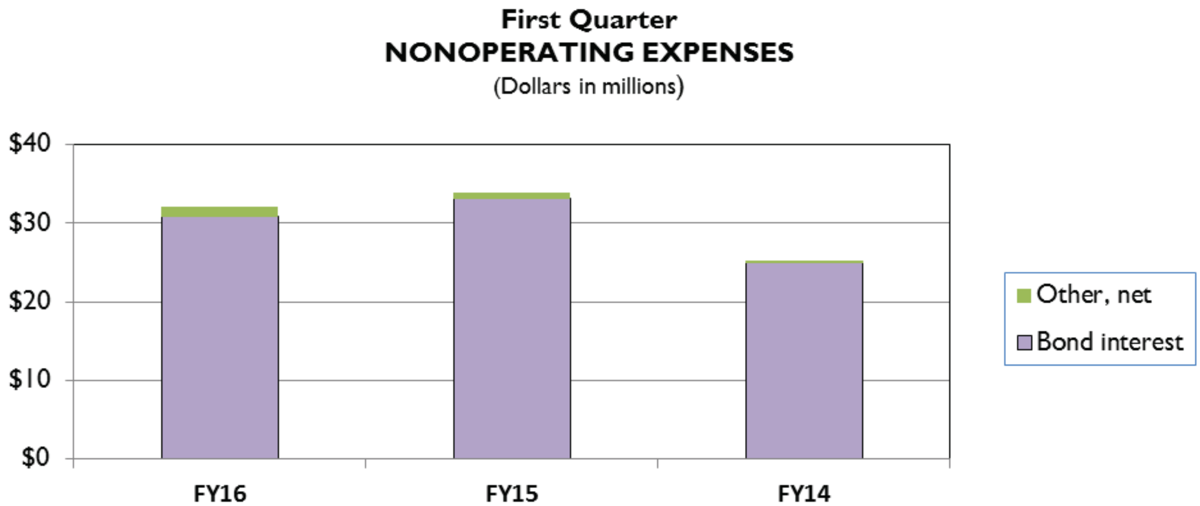
Analytical Review of Operating Expenses

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. For the three months ended September 30, 2015, operating expenses of $353.3 million were $62.4 million higher than prior year. The increase included $32.5 million of higher operations and maintenance costs primarily due to $33.1 million higher conservation credits expenses as a result of the Board approving a historic $450.0 million budget for conservation spending in response to the continued drought. In addition, power and water costs increased $27.9 million primarily due to $28.5 million of higher State Water Project OMP&R costs related to the Fish Restoration Program Agreement, biological opinions, and increased labor costs.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. For the three months ended September 30, 2014, operating expenses of $290.9 million were $6.2 million lower than the prior year primarily due to $23.3 million of lower power and water costs resulting from decreased water sales of 12.9 TAF from the first quarter of fiscal year 2014. The decrease was partially offset by $16.8 million more of operating and maintenance as a result of higher conservation credit expenses.

Nonoperating Expenses

The primary source of nonoperating expenses is interest expense on bonds and other, net.



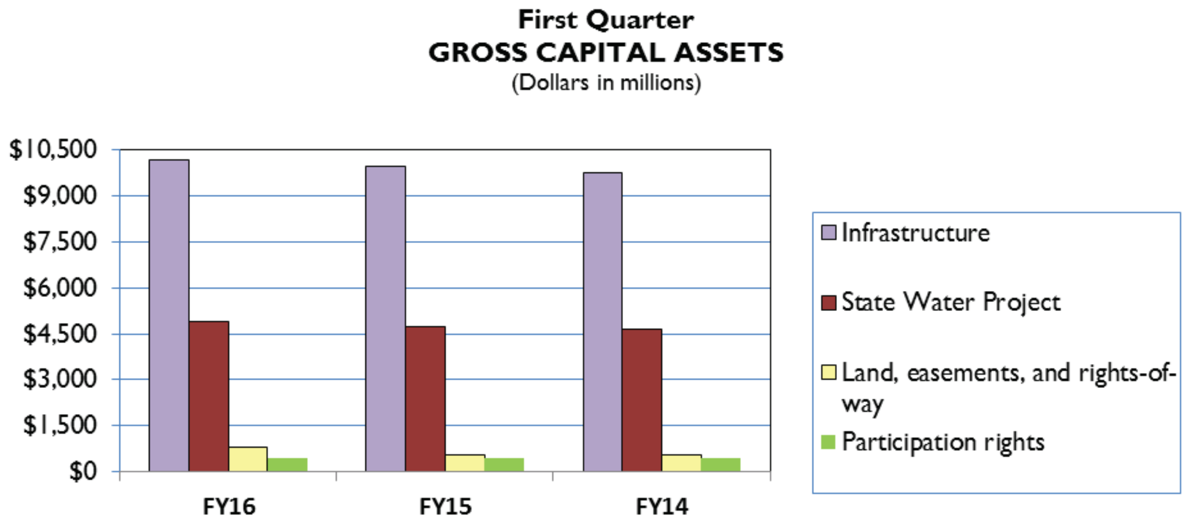
Analytical Review of Nonoperating Expenses

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. For the three months ended September 30, 2015, nonoperating expenses of $32.1 million were $1.7 million lower than the prior year. The decrease was primarily due to a $2.3 million decrease in interest expense on bonds related to bond refunding transactions to take advantage of lower interest rates.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. For the three months ended September 30, 2014 nonoperating expenses of $33.8 million were $8.5 million higher than the prior year primarily due to a decrease in capitalized interest on assets constructed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets include Metropolitan's water infrastructure, land and buildings, as well as participation rights in State Water Project and various other water programs.



Schedule of Capital Assets

(Dollars in millions)	September 30, 2015	2014	2013
Land, easements and rights-of-way	**$ 814.0**	$ 557.7	$ 555.7
Construction in progress	**1,697.7**	1,679.6	1,582.2
Parker power plant and dam	**13.0**	13.0	13.0
Power recovery plants	**178.7**	178.7	177.1
Other dams and reservoirs	**1,440.1**	1,435.8	1,435.8
Water transportation facilities	**3,491.9**	3,364.1	3,329.0
Pumping plants and facilities	**240.7**	240.5	229.8
Treatment plants and facilities	**2,127.8**	2,059.3	2,038.0
Other plant assets	**944.6**	932.4	923.3
Pre-operating expenses original aqueduct	**44.6**	44.6	44.6
Participation rights in State Water Project	**4,884.2**	4,756.0	4,643.5
Participation rights in other facilities	**461.9**	456.1	456.1
Gross capital assets	**16,339.2**	15,717.8	15,428.1
Less accumulated depreciation and amortization	**(5,905.7)**	(5,539.9)	(5,280.7)
Capital assets, net	**$ 10,433.5**	$ 10,177.9	$ 10,147.4
Net increase from prior year	**$ 255.6**	$ 30.5	$ 31.9
Percent change	**2.5%**	0.3%	0.3%

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. Net capital assets totaled approximately $10.4 billion and increased $255.6 million over the prior year primarily due to $255.8 million PVID land purchase. This increase was partially offset by the $231.6 million of new construction activity and a net increase of $134.0 million in participation rights in State Water Project and other facilities offset by depreciation and amortization of $365.8 million.

The major capital asset additions for the current year, excluding capitalized interest, included:

- $50.7 million for the oxidation retrofit program at the filtration plants; this program is designed to reduce the level of disinfection byproducts in the treated water supplied by these plants in order to meet state and federal standards.
- $47.8 million for the improvements in infrastructure reliability at the treatment plants.
- $28.8 million for the distribution system's reliability programs; projects under this program will improve Metropolitan's distribution system, including reservoirs, pressure control structures, hydroelectric power plants, and pipelines to reliably meet water demands.
- $17.0 million for the information technology program which is designed to ensure the reliability and efficiency of the information technology infrastructure in support of Metropolitan's operational and business applications.
- $12.7 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to insure long-term reliability of Metropolitan's PCCP lines water delivery.
- $12.5 million for chlorine containment and handling facilities program which is designed to enhance hazardous chemical safety, prevent a chlorine chemical release, and comply with security and safety regulations.
- $11.5 million for supply reliability and system expansion program, which is designed to improve water delivery flexibility.

Metropolitan's fiscal year 2016 capital budget includes plans to spend $267.9 million principally for the water treatment plants improvements program, the distribution system and rehabilitation projects, the water quality/oxidation retrofit program, the supply reliability and system expansion program, and the Colorado River Aqueduct reliability and containment programs.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. Net capital assets totaled approximately $10.2 billion and increased $30.5 million over the prior year primarily due to $177.3 million of new construction activity and a net increase of $112.5 million in participation rights in State Water Project, partially offset by increased accumulated depreciation and amortization of $259.3 million.

The major capital asset additions for the current year, excluding capitalized interest, included:

- $53.2 million for the oxidation retrofit programs.
- $42.7 million for the improvements in infrastructure reliability at the treatment plants.
- $20.2 million for the distribution system's reliability programs.
- $13.0 million to modernize the machine, coatings, and fabrication shops at the La Verne facility.
- $9.8 million for the Colorado River Aqueduct (CRA) reliability program, which is designed to replace or refurbish the CRA system to improve reliability of delivering Colorado River water during drought or other State Water Project delivery constraints.

LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

	September 30,		
(Dollars in millions)	**2015**	2014	2013
General obligation bonds *(a)*	**$ 110.4**	$ 132.3	$ 165.1
Revenue bonds *(a)*	**4,037.8**	4,178.3	4,340.7
State revolving loan	**10.2**	11.2	12.2
Other, net *(b)*	**187.6**	217.0	203.8
	$ 4,346.1	$ 4,538.8	$ 4,721.8
Decrease from prior year	**$ (192.7)**	$ (183.0)	$ (179.2)
Percent change	**(4.2%)**	(3.9%)	(3.7%)

(a) Includes refunding bonds.
(b) Consists of unamortized bond discounts and premiums.

First Quarter Fiscal 2016 Compared to First Quarter Fiscal 2015. At September 30, 2015, there was $4.3 billion of outstanding bonds and other long-term obligations, a net decrease of $192.7 million or 4.2 percent from the prior year. The decrease was primarily due to scheduled principal payments and principal reduction related to refunding transactions.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014. At September 30, 2014, there was $4.5 billion of outstanding bonds and other long-term obligations, a net decrease of $183.0 million or 3.9 percent from the prior year. The decrease was primarily due to the pay down of bond principal and refunding transactions.

CREDIT RATINGS

Metropolitan's credit ratings at September 30, 2015, are shown below.

	Moody's Investors Service	Standard & Poor's	Fitch Ratings
General obligation bonds	Aaa	AAA	AAA
Water revenue bonds-fixed rate	Aa1	AAA	AA+
Water revenue bonds-variable rate	VMIG 1	A-1+	F1+

CURRENTLY KNOWN FACTS

California is currently facing one of the most severe droughts on record. Although it is not possible to forecast the impact of the current drought on Metropolitan water supplies or financial position, Metropolitan is prepared to meet water demands in its service area through calendar year 2016 using a combination of State Water Project and CRA deliveries, storage reserves and supplemental water transfers and purchases.

Since its two principal sources of supply draw from two different watersheds, Metropolitan has been able to utilize supplies from the Colorado River to offset reductions from the State Water Project, thereby buffering impacts of the drought thus far. To offset potentially low State Water Project supply allocations in 2016, Metropolitan plans to continue its use of Colorado River Aqueduct deliveries, storage reserves and supplemental water transfers and purchases to meet regional demands in 2016. In addition, the extraordinary operations in place since 2014, to move Colorado River supplies throughout the distribution system, will continue and Metropolitan will continue to aggressively pursue conservation into 2016. Conservation efforts to date have helped reduce demands in 2015 such that higher storage levels are anticipated by the close of calendar year 2015 bolstering available supplies for use in 2016. Metropolitan also relies upon its Water Surplus and Drought Management Plan to identify resource actions in times of shortage and its Water Supply Allocation Plan for equitable distribution of available water supplies in case of extreme shortages. In 2015, Metropolitan's Board declared the implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level for the allocation year, effective July 1, 2015 through June 30, 2016.

Finally, in 2015, Metropolitan's board increased funding for water conservation incentive programs, particularly the turf replacement program, by $350 million for total funding of $450 million over fiscal years 2015 and 2016.

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STATEMENTS OF NET POSITION

(Dollars in thousands)	September 30, 2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	(Unaudited)	
Current Assets:		
Cash and investments, at fair value (Notes 1b and 2):		
Unrestricted (cost: $355,471 and $695,028 for 2015 and 2014, respectively)	**$ 356,764**	$ 695,410
Restricted (cost: $286,671 and $237,686 for 2015 and 2014, respectively)	**287,714**	237,816
Total cash and investments	**644,478**	933,226
Receivables:		
Water sales	**206,982**	263,037
Interest on investments	**3,338**	3,680
Other, net (Note 1e)	**165,164**	154,747
Total receivables	**375,484**	421,464
Inventories (Note 1f)	**73,319**	75,561
Deposits, prepaid costs, and other (Note 8)	**149,617**	143,251
Total current assets	**1,242,898**	1,573,502
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1b and 2):		
Unrestricted (cost: $264,650 and $285,414 for 2015 and 2014, respectively)	**265,613**	285,570
Restricted (cost: $149,226 and $172,341 for 2015 and 2014, respectively)	**156,555**	166,350
Total cash and investments	**422,168**	451,920
Capital assets:		
Plant and equipment - non depreciable (Notes 1g and 6g)	**2,511,738**	2,237,262
Plant and equipment - depreciable (Notes 1g and 6g)	**8,481,287**	8,268,432
Participation rights in State Water Project (Notes 1h and 7)	**4,884,243**	4,756,011
Participation rights in other facilities (Note 1h)	**461,909**	456,109
Total capital assets	**16,339,177**	15,717,814
Less accumulated depreciation and amortization	**(5,905,674)**	(5,539,900)
Total capital assets, net	**10,433,503**	10,177,914
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 8)	**238,303**	282,060
Total other assets	**238,303**	282,060
Total noncurrent assets	**11,093,974**	10,911,894
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1p)	**82,042**	97,266
Loss on swap terminations (Note 1p)	**37,825**	41,028
Pension contributions (Note 1q)	**34,306**	—
Effective swaps (Note 1p)	**26,654**	14,941
Total deferred outflows of resources	**180,827**	153,235
Total Assets and Deferred Outflows of Resources	**$ 12,517,699**	$ 12,638,631

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

(Dollars in thousands)	September 30, 2015	2014
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	(Unaudited)	
Current Liabilities:		
Accounts payable and accrued expenses (Note 1i)	**$ 168,485**	$ 174,232
Current portion of long-term debt	**317,829**	221,706
Current portion of obligations for off-aqueduct power facilities (Note 6f)	**3,276**	4,062
Current portion of accrued compensated absences (Note 1j)	**22,100**	21,600
Current portion of customer deposits and trust funds	**10,525**	12,839
Current portion of workers' compensation and third party claims (Note 11)	**8,400**	15,500
Current portion of other long-term obligations	**207,420**	204,008
Accrued bond interest	**44,404**	45,753
Matured bonds and coupons not presented for payment	**1,852**	1,859
Total current liabilities	**784,291**	701,559
Noncurrent Liabilities:		
Long-term debt, net of current portion	**4,028,262**	4,317,116
Obligations for off-aqueduct power facilities, net of current portion (Note 6f)	**13,898**	17,155
Accrued compensated absences, net of current portion (Note 1j)	**24,994**	25,564
Customer deposits and trust funds, net of current portion	**80,231**	69,657
Net pension liability (Note 4)	**406,794**	—
Postemployment benefits other than pensions (Note 5)	**62,875**	60,550
Workers' compensation and third party claims, net of current portion (Note 11)	**12,030**	12,071
Fair value of interest rate swaps (Note 3f)	**91,481**	76,935
Other long-term obligations, net of current portion	**2,226**	4,649
Total noncurrent liabilities	**4,722,791**	4,583,697
Total liabilities	**5,507,082**	5,285,256
Commitments and Contingencies (Note 6)	**—**	—
Deferred Inflows of Resources:		
Net difference between projected and actual earnings on plan investments	**109,220**	—
Net Position (Note 10)**:**		
Net investment in capital assets, including State Water Project costs	**6,043,022**	5,597,284
Restricted for:		
Debt service	**86,762**	103,205
Other	**191,320**	144,055
Unrestricted	**580,293**	1,508,831
Total net position	**6,901,397**	7,353,375
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 12,517,699**	$ 12,638,631

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Three Months Ended September 30, 2015	2014
	(Unaudited)	
Operating Revenues (Note 1c):		
Water sales	**$ 318,589**	$ 415,014
Readiness-to-serve charges	**39,497**	41,499
Capacity charge	**10,918**	7,818
Power sales	**1,593**	1,026
Total operating revenues	**370,597**	465,357
Operating Expenses:		
Power and water costs	**133,963**	106,123
Operations and maintenance	**153,073**	120,611
Total operating expenses	**287,036**	226,734
Operating income before depreciation and amortization	**83,561**	238,623
Less depreciation and amortization (Note 2)	**(66,176)**	(64,172)
Operating income	**17,385**	174,451
Nonoperating Revenues (Expenses) (Note 1m):		
Taxes, net (Note 1d)	**26,191**	25,001
Bond interest, net of $5,800 and $5,500 of interest capitalized fiscal year-to-date 2016 and 2015, respectively (Note 1g)	**(30,773)**	(33,102)
Investment income (loss), net	**5,066**	(13,236)
Other, net	**1,908**	(703)
Total nonoperating expenses, net	**2,392**	(22,040)
Income before Contributions	**19,777**	152,411
Changes in net position	**19,777**	152,411
Net position, at June 30, 2015 and 2014	**6,881,620**	7,200,964
Net position, at September 30, 2015 and 2014	**$ 6,901,397**	$ 7,353,375

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Three Months Ended September 30, 2015	2014
Cash Flows from Operating Activities:	(Unaudited)	
Cash received from water sales	**$ 315,564**	$ 420,755
Cash received from readiness-to-serve charges	**12,333**	13,380
Cash received from capacity charge	**4,736**	3,689
Cash received from power sales	**2,015**	1,238
Cash received from exchange transactions	**19,436**	19,870
Cash paid for operating and maintenance expenses	**(129,258)**	(66,238)
Cash paid to employees for services	**(99,574)**	(162,299)
Cash paid for power and water costs	**(131,548)**	(85,419)
Other cash flows for operating activities	**(3,005)**	(905)
Net cash provided (used) by operating activities	**(9,301)**	144,071
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	**3,401**	2,108
Net cash provided by noncapital financing activities	**3,401**	2,108
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	**(311,667)**	(52,571)
Payments for State Water Project costs	**(64,918)**	(63,446)
Payments for bond issuance costs	**(223)**	(445)
Proceeds from capital grants	**-**	226
Principal paid on long-term debt	**(113,895)**	(82,285)
Interest paid on long-term debt	**(80,373)**	(79,197)
Payments for other long-term obligations	**(1,688)**	(2,003)
Proceeds from tax levy	**4,057**	2,905
Transfer (to) from escrow trust accounts	**10,272**	(3,461)
Collection of notes receivable - land sales	**139**	139
Net cash used by capital and related financing activities	**(558,296)**	(280,138)
Cash Flows from Investing Activities:		
Purchase of investment securities	**(2,891,661)**	(2,274,712)
Proceeds from sales and maturities of investment securities	**3,443,340**	2,410,705
Investment income	**6,384**	10,251
Net cash provided by investing activities	**558,063**	146,244
Net change in cash	**(6,133)**	12,285
Cash at June 30, 2015 and 2014	**6,172**	457
Cash at September 30, 2015 and 2014 (Note 1b)	**$ 39**	$ 12,742

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)		Three Months Ended September 30, 2015		2014
		(Unaudited)		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income	**$**	**17,385**	$	174,451
Adjustments to reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation and amortization expense		**66,176**		64,172
Increase in accounts receivable		**(1,964)**		(13,871)
(Increase) decrease in inventories		**(4,276)**		21,579
Increase in deposits, deferred charges, and other		**(143,540)**		(157,936)
(Decrease) increase in accounts payable and accrued expenses		**(30,360)**		12,956
Increase in other items		**87,278**		41,148
Total Adjustments		**(26,686)**		(31,952)
Net cash provided (used) by operating activities	**$**	**(9,301)**	$	142,499
Significant Noncash Investing, Capital and Financing Activities				
Refunding bonds proceeds received in escrow trust fund	**$**	**194,920**	$	181,155
Debt defeased through escrow trust fund with refunding debt	**$**	**(188,221)**	$	(162,705)

RECONCILIATION OF CASH AND INVESTMENTS TO CASH AND CASH EQUIVALENTS				
Unrestricted cash and investments (at September 30, 2015 and 2014 include $39 and $12,742 of cash, respectively)	**$**	**622,377**	$	980,980
Restricted cash and investments		**444,269**		404,166
Total cash and investments, at fair value		**1,066,646**		1,385,146
Less: carrying value of investments		**(1,066,607)**		(1,372,404)
Total Cash (Note 1b)	**$**	**39**	$	12,742

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1. 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. 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 than 38 directors. 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 three months ended September 30, 2015 and 2014. 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 a utility enterprise and 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.

Metropolitan is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting.

For purposes of the statements of cash flows, Metropolitan defines cash as demand account balances and cash on hand.

All investments are stated at fair value, which is based on quoted market price or amortized cost, which approximates fair value.

Certain amounts reported in fiscal year 2015 have been reclassified to conform to the fiscal year 2016 presentation. Such reclassification had no effect on the previously reported change in net position.

(c) Revenue Policies

Metropolitan's principal source of revenue is from water sales, which include revenues received from charges for the sale and availability of water, including water rates and other exchange transactions. 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.

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 includes separate rates for supply, treatment, conveyance and distribution, power, and demand management. 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) 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 as of July 1, using a lien date of March 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 primarily 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 (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, tax levies in fiscal years 1991 to 2013, other than annexation taxes, were 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. During fiscal years 2014 and 2015, the Board suspended the tax rate limitations and maintained the fiscal year 2013 tax rate for fiscal years 2015 and 2016 to pay a portion of State Water Contract costs other than debt service.

(e) Other Receivables

Other receivables include amounts for taxes, hydroelectric power sales, readiness-to-serve charges, and other billings.

(f) Inventories

Metropolitan's inventories are valued based on a moving-average cost. Expenses are recorded when inventories are used. Components of inventories at September 30, 2015 and 2014 were as follows:

	September 30,			
(Dollars in thousands)		**2015**		2014
Water in storage	**$**	**63,108**	$	65,088
Operating supplies		**10,211**		10,473
Total inventories	**$**	**73,319**	$	75,561

(g) Plant and Equipment

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 storage and distribution facilities, 10 to 50 years for treatment plants and hydroelectric power recovery facilities, and 10 to 50 years for miscellaneous assets. 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.

(h) Participation Rights

Metropolitan participates in various storage and water management programs entitling it to certain water rights. Projects include the State Water Project (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.)

(i) Disaggregation of Payable Balances

Accounts payable and accrued expenses at September 30, 2015 and 2014 were as follows:

	September 30,	
(Dollars in thousands)	**2015**	2014
Department of Water Resources (State Water Project):		
Capital, operating, maintenance, power, replacement, and variable power	**$ 126,712**	$ 130,964
Vendors	**25,674**	31,853
Accrued power costs	**3,702**	1,915
Accrued salaries	**2,362**	1,559
Conservation credits	**10,035**	7,941
Total accounts payable and accrued expenses	**$ 168,485**	$ 174,232

(j) 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.

(k) 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.

(l) 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.

(m) 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 water sales, 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.

(n) 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.

(o) Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles 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.

(p) Deferred Outflows of Resources

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63) requires that the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources be reported as net position. In addition, the impact of a deferred outflow of resources on net position must be explained as is done in the following paragraph.

The unrestricted net position amount of $580.3 million and $1,508.8 million at September 30, 2015 and 2014, respectively, includes the effect of deferring the recognition of losses from bond refundings, swap terminations resulting in defeasance of debt, and the decline in fair value of Metropolitan's effective interest rate swaps. The deferred outflows from losses on bond refundings at September 30, 2015 and 2014, respectively, were $82.0 million and $97.3 million, respectively. The deferred outflows from losses on swap terminations resulting in debt defeasance at September 30, 2015 and 2014, respectively, were $37.8 million and $41.0 million. Both 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 from the decline in fair value of interest rate swaps of $26.7 million and $14.9 million at September 30, 2015 and 2014, respectively, would be recognized as an investment loss 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 also would be recognized as an investment loss if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred outflow would be reduced and the deferred loss on refunding increased by the same amount. The deferred loss on refunding would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

(q) Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, Pension Expense and Implementation of Accounting Principles

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68), provides requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's net position available for paying benefits, there is a net pension liability which must be reported in the basic financial statements. In addition, GASB 68 requires that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71) requires that, at transition to the new accounting standards in accordance with GASB 68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts. Metropolitan did not restate the financial statements for the year ended June 30, 2014 because the necessary actuarial information from CalPERS was not provided for the prior year presented. As of July 1, 2014, Metropolitan restated beginning net position in the amount of $491.0 million to record the beginning deferred pension contributions and net pension liability.

(r) New Accounting Pronouncements

Metropolitan is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 is effective for Metropolitan's fiscal year ending June 30, 2016.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73), which establishes requirements for defined benefit pensions that are not within the scope of GASB 68, as well as for the assets accumulated for the purposes of providing those pensions. GASB 73 amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67), and GASB 68 for pension plans and pensions that are within their respective scopes. GASB 73 addresses the recognition of the total pension liability of such plans and the disclosures necessary for the plans that did not meet the definition of GASB 68. GASB 73 is effective for Metropolitan's fiscal year ending June 30, 2016.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74), which establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits (OPEB), as well as for certain non-employer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB 74 replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended* (GASB 43), and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (GASB 57). It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended*, GASB 43, and GASB Statement No. 50, *Pension Disclosures*. GASB 74 is effective for Metropolitan's fiscal year ending June 30, 2017.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which establishes new accounting and financial reporting requirements for OPEB improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB 57. GASB 75 is effective for Metropolitan's fiscal year ending June 30, 2018.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 identifies the hierarchy of generally accepted accounting principles (GAAP) used to prepare financial statements of state and local governmental entities. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* and is effective for Metropolitan's fiscal year ending June 30, 2016.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77), which requires governments that enter into tax abatement agreements to disclose information about (1) the government's own tax abatement agreements and (2) those that are entered into by other governments and reduce the reporting government's tax revenues. In addition, GASB 77 requires the disclosure of the nature and magnitude of tax abatements agreements to make these transactions more transparent to financial statement users. Metropolitan does not enter into tax abatement agreements, as such, this statement does not apply.

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 September 30, 2015 and 2014, Metropolitan's cash balances with financial institutions were $34,000 and $12,737,000 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, repurchase agreements, negotiable certificates of deposit, bankers' acceptances, prime commercial paper, asset and mortgage-backed securities, California local agency securities, including securities issued by Metropolitan, medium-term corporate notes, time deposits, investment contracts, shares of beneficial interest, and Local Agency Investment Fund (LAIF). As of September 30, 2015 and 2014, Metropolitan had the following investments at fair value:

	September 30,			
(Dollars in thousands)		**2015**		2014
U.S. Treasury securities	**$**	**245,789**	$	233,786
U.S. Guarantees – GNMAs		**6**		8
Federal agency securities		**123,882**		200,148
Bankers' acceptances		**—**		967
Prime commercial paper		**217,539**		230,422
Medium-term corporate notes		**145,586**		174,159
Negotiable certificates of deposit		**166,999**		354,915
Shares of beneficial interest		**996**		1,038
Asset and mortgaged-backed securities		**67,384**		68,632
Municipal bonds		**48,426**		58,329
Local Agency Investment Fund		**50,000**		50,000
Total investments	**$**	**1,066,607**	$	1,372,404

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).

Internally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch 3-Month Treasury Bill Index, approved by the Finance and Insurance Committee. For September 30, 2015 and 2014, the benchmark durations were 0.25 and 0.24, respectively, and the portfolio weighted average duration was permitted to vary from the duration by plus or minus 0.20. As of September 30, 2015 and 2014, Metropolitan's investments and portfolio durations for this segment were as follows:

	September 30,					
	2015			2014		
(Dollars in thousands)		**Fair value**	**Duration**		Fair value	Duration
U.S. Treasury securities	**$**	**33,675**	**1.84**	$	23,218	2.78
Federal agency securities		**97,515**	**0.29**		184,629	0.30
Bankers' acceptances		**—**	**—**		967	0.14
Prime commercial paper		**217,539**	**0.04**		230,422	0.12
Medium-term corporate notes		**81,933**	**0.09**		109,314	0.18
Negotiable certificates of deposit		**166,999**	**0.20**		354,915	0.20
Municipal bonds		**—**	**—**		267	0.17
Local Agency Investment Fund		**50,000**	**—**		50,000	—
Weighted average duration			**0.21**			0.25

Externally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. For September 30, 2015 and 2014, the benchmark durations were 2.68 and 2.70, respectively, and the portfolio weighted average duration was permitted to vary from the duration by plus or minus 1.50. As of September 30, 2015 and 2014, Metropolitan's investments and portfolio durations for this segment were as follows:

	September 30,			
	2015		2014	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 190,809**	**2.96**	$ 190,526	2.56
U.S. Guarantees – GNMAs	**6**	**5.51**	8	6.13
Federal agency securities	**18,891**	**2.24**	7,805	6.78
Medium-term corporate notes	**61,668**	**2.42**	63,161	3.00
Shares of beneficial interest	**996**	**—**	1,038	—
Asset and mortgaged-backed securities	**67,384**	**2.28**	68,632	2.27
Weighted average duration		**2.68**		2.67

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 September 30, 2015 and 2014, Metropolitan's investments and portfolio durations for this segment were as follows:

	September 30,			
	2015		2014	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 21,305**	**6.08**	$ 20,042	7.05
Federal agency securities	**7,476**	**1.47**	7,714	2.00
Medium-term corporate notes	**1,985**	**0.13**	1,684	0.20
Municipal bonds	**48,426**	**7.13**	58,062	8.78
Weighted average duration		**6.13**		7.62

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. Government and agencies	Not applicable.
Bankers' acceptances Prime commercial paper Negotiable certificates of deposit Time deposits	Prime quality of the highest ranking or highest letter and numerical rating ('A1', 'P1', 'F1' or higher) as provided by Moody's Investors Service, Inc., Standard and Poor's Ratings Services, and Fitch Ratings. Credit requirement may be waived for the maximum deposit that is insured by the Federal Deposit Insurance Corporation.
Repurchase agreements	Only with primary dealers in government securities or financial institutions with a Moody's Investors Service, Inc. or equivalent rating of 'A' or better.
Investment contracts	Not applicable. Limited to guaranteed investment contracts, or agreements collateralized with U.S. Treasury or agency securities.
Medium-term corporate notes	Rating category of at least 'A' or better, or the equivalent, by a nationally recognized rating agency.
Asset and mortgage-backed securities	Issuer's debt must be rated 'A' or higher as provided by a nationally recognized rating agency and the security must be rated in a category of 'AAA' by a nationally recognized rating agency.
Local Agency Investment Fund	Not applicable.
Shares of beneficial interest	Highest ranking of the highest letter and numerical rating provided by not less than two nationally recognized rating agencies.
California local agency securities Municipal bonds	Securities with a maturity in excess of five years must have a credit rating of at least 'AA' (may be insured) and an underlying credit rating of 'A' or better by a nationally recognized rating agency.

Metropolitan's minimum rating for assets and mortgage-backed securities of 'AAA' is more restrictive than the California Government Code requirement of 'AA'.

At September 30, 2015 and 2014, Metropolitan's portfolio was invested in the following securities by rating:

		September 30,	
		2015	2014
(Dollars in thousands)	Rating	**Fair value**	Fair value
U.S. Treasury securities	AAA(1)	**$ 245,789**	$ 233,786
U.S. Guarantees – GNMAs	AAA	**6**	8
Federal agency securities	AAA(1)	**123,882**	200,148
Shares of beneficial interest	AAA	**996**	1,038
Asset and mortgaged-backed securities	AAA	**67,384**	68,632
Medium-term corporate notes	A(2)	**145,586**	174,159
Prime commercial paper	A1/P1(2)	**217,539**	230,422
Negotiable certificates of deposit	F1(2)	**166,999**	354,915
Bankers' acceptances	F1(2)	**—**	967
Municipal bonds	A(2)	**48,426**	58,329
Local Agency Investment Fund	(3)	**50,000**	50,000
Total portfolio		**$ 1,066,607**	$ 1,372,404

(1) *United States Treasuries and Federal Agencies are rated "AAA" by two nationally recognized rating agencies and "AA" by one nationally recognized rating agency.*

(2) *A or better e.g. F1+, A1+, AA, or AAA.*

(3) *Local Agency Investment Fund 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 asset and mortgage-backed securities, to 100 percent for U.S. Treasury and 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 September 30, 2015 and 2014.

	Investment Policy Limits	Percent of Portfolio	
		2015	2014
U.S. Treasury securities	100%	**23.04 %**	17.04 %
Federal agency securities	100%	**11.61**	14.58
Shares of beneficial interest	20%	**0.09**	0.08
Asset and mortgaged-backed securities	20%	**6.32**	5.00
Medium-term corporate notes	30%	**13.65**	12.69
Prime commercial paper	25%	**20.40**	16.79
Negotiable certificates of deposit	30%	**15.66**	25.86
Bankers' acceptances	40%	—	0.07
Municipal bonds	30%	**4.54**	4.25
Local Agency Investment Fund	N/A	**4.69**	3.64
Total portfolio		**100.00 %**	100.00 %

At September 30, 2015 and 2014, 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:

	September 30,			
(Dollars in thousands)	**2015**		2014	
Federal National Mortgage Association	**$ 93,495**	**8.85 %**	$ 130,702	9.58 %
Federal Home Loan Bank	**$ -**	**- %**	$ 83,240	6.10 %
Mitsubishi UFJ	**$ 54,448**	**5.16 %**	$ —	— %

Custodial credit risk. At September 30, 2015 and 2014, 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 $50.0 million in deposits in the California State managed LAIF as of September 30, 2015 and 2014.

The LAIF, created by California statute, is part of a pooled money investment account. The LAIF has oversight by the Local Investment Advisory Board, which consists of five members designated by statute. The Chairman is the State Treasurer, or his designated representative.

(c) Reverse Repurchase Agreements

Metropolitan was 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 two years ended September 30, 2015 and 2014.

(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 were classified as "restricted." Most restricted accounts had the minimum cash and investment balance requirements and all were nondiscretionary in terms of the use of assets. Among other things, the restricted amounts provided 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.

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 $4.346 billion and $4.539 billion at September 30, 2015 and 2014, respectively, represents less than one percent of the September 30, 2015 and 2014 total taxable assessed valuation of $2,451 billion and $2,315 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) Short-term Debt

Metropolitan may issue up to $400.0 million in commercial paper to fund a portion of its capital plan. During the three months ended September 30, 2015, and 2014, there were no commercial paper notes issued or outstanding. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds (see Note 3c).

(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 plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled $850.0 million at September 30, 2015 and 2014. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of $110.4 million and $132.3 million in general obligation bonds and general obligation refunding bonds were outstanding at September 30, 2015 and 2014, respectively.

The general obligation and general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates ranging from 2.0 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 premiums.

No general obligation bonds were issued during the two years ended September 30, 2015 and 2014.

(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 $4.038 billion and $4.178 billion of revenue bonds and revenue refunding bonds were outstanding at September 30, 2015 and 2014, 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 2040 at interest rates ranging from 1.28 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 interest payment dates, and subject to early redemption premiums.

No revenue bonds were issued during the two years ended September 30, 2015 and 2014.

(d) Bond Refundings and Defeasances

Metropolitan has issued Waterworks General Obligation Refunding Bonds, Water Revenue Refunding Bonds, and Special Variable Rate Water Revenue Refunding Bonds to refund various issues of Waterworks General Obligation Bonds, Waterworks General Obligation Refunding Bonds, Water Revenue Bonds, Water Revenue Refunding Bonds, and Special Variable Rate Water Revenue Refunding Bonds 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) Other Long-term Debt

In November 2003, Metropolitan received $20.0 million through the state Department of Water Resources for oxidation retrofit facilities at the Mills Water Treatment Plant in Riverside County. This 20-year State Revolving Fund loan carries interest at 2.39 percent with the final payment due July 1, 2024. At September 30, 2015 and 2014, the outstanding balance was $10.2 million and $11.2 million, respectively.

(f) Interest Rate Swaps

Metropolitan has entered into 22 separate interest rate swap agreements of which 8 were outstanding as of September 30, 2015. The eight 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.

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 September 30, 2015, 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 September 30, 2015, 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 September 30, 2015.

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 September 30, 2015, 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 Aa3/A+/AA- by Moody's, Standard & Poor's, 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 September 30, 2015, the interest rates of the variable rate debt associated with these swap transactions range from 0.01 percent to 0.40 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 0.11 percent to 0.23 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. On July 29, 2014, Metropolitan exercised its optional termination provisions and terminated one swap in its entirety and partially terminated six other swaps. The termination payment of $17.0 million was funded from a portion of the proceeds of the 2014 Series E, F, and G Water Revenue Refunding Bonds, and resulted in a loss on early termination of $15.8 million, which is included in interest expense.

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.

Pay-Variable, Receive-Variable

Objective of the Swaps: The low interest rate environment during fiscal years 2004 through 2006 enabled Metropolitan to reduce the cost of Metropolitan's debt obligations by taking advantage of the relationship between taxable and tax-exempt market indices. To take advantage of the market opportunity, Metropolitan entered into two SIFMA-to-LIBOR basis swap transactions to generate additional cash flow savings while preserving the call option value of its existing bonds. Metropolitan pays a variable rate based on the SIFMA or tax-exempt index and receives a variable rate based on a percentage of the LIBOR or taxable index.

Terms: On May 17, 2004, Metropolitan entered into two basis swap transactions (2004 Basis Swaps) with two counterparties. The terms of both swaps are 10 years and terminated in July 2014. The notional amount of each swap is $125.0 million. Under the terms of the swaps, Metropolitan pays a variable rate equal to the SIFMA Index and receives a variable rate based on 70.0 percent of the one-month LIBOR plus 31.5 basis points.

(g) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from 0.01 percent to 0.40 percent as of September 30, 2015 and 0.01 percent to 0.39 percent as of September 30, 2014. Metropolitan can elect to change the interest rate period of the bonds with certain limitations. With the exception of the Water Revenue Refunding Bonds, 2009 SIFMA Index Bonds Series A-2, 2011 SIFMA Index Bonds Series A-1, A-2, A-3, and A-4, 2012 SIFMA Index Bonds Series B-1 and B-2, and the 2013 Flexible Index Bonds, Series E, the bondholders have the right to tender bonds to the paying agent on any business day with either same day or seven days' prior notice. The current terms of the 2009 SIFMA Index Bond Series A-2 and the 2011 SIFMA Index Bonds Series A-1 and A-3 provide bondholders a right to tender bonds to the paying agent annually, for the 2011 SIFMA Index Bonds Series A-2 and A-4, and the 2012 SIFMA Index Bonds Series 2012 B-1 and B-2, every three years, and for the 2013 Flexible Index Bond, every 270 days. Metropolitan has entered into standby bond purchase agreements (SBPA) with several commercial banks to provide liquidity for two and three separate variable rate bond issues in the amount of $151.3 million and $240.1 million as of September 30, 2015 and 2014, respectively. In addition, Metropolitan has eleven series of variable rate bonds in the amount of $876.4 million and $703.7 million as of September 30, 2015 and 2014, respectively, that are not supported by an SBPA.

The Bank Bonds that would be issued under the SBPA would bear interest that is payable at a rate, depending on the agreement, that is the higher of the "base rate", which is based on the prime rate or Federal Funds rate or LIBOR, plus a spread, as designated in each SBPA. The base rate is then adjusted upwards by between 2.0 percent and 8.0 percent. The principal of the Bank Bonds would be payable, depending on the agreement, from between six to ten equal semi-annual installments commencing between 180 days and one year after purchase by the bank. For eight series of variable rate bonds not supported by SBPA in the amount of $536.5 million, if the purchase price is not paid from the proceeds of remarketing or other funds, such bonds then will bear interest at a rate equal to the lower of (i) 12.0 percent and (ii) the higher of 8.0 percent or Prime Rate plus 3.0 percent until purchased by Metropolitan or redeemed pursuant to a special mandatory redemption. The principal amount of these new bonds would be payable in three equal installments at 18 month increments from the conversion of the bonds to a fixed rate.

The three series of self-liquidity variable rate bonds that were not supported by a SBPA at September 30, 2015 and 2014, were the $87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds, the $63.6 million, 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds, and the $188.9 million, 2015 Series A-1 and A-2, Special Variable Rate Water Revenue Refunding Bonds. These variable rate bonds outstanding at September 30, 2015 and 2014, had no long-term take out provisions therefore, the entire principal amount of $339.9 million may be tendered for purchase upon one week's notice from bondholders. However, on March 21, 2013, Metropolitan entered into separate Revolving Credit Agreements (RCAs), by which Metropolitan may borrow up to $96.5 million and $180 million, respectively, to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. The RCAs permits repayment of any borrowed funds over a term-out period beginning 90 days after the RCA's stated expiration date of March 31, 2016 and 120 days after the stated expiration date of June 24, 2018. As a result of the RCA, only $159.9 million of these self-liquidity bonds have been classified as current liabilities as of September 30, 2015 and 2014.

The 2013 Series D, 2014 Series D, and 2015 Series A-1 and A-2 bonds that may be purchased from borrowings under the RCAs have been classified as long-term obligations on the statement of net position, the same as all other variable rate bonds. Metropolitan intends to either renew the SBPA and RCAs, or maintain the existing provisions of non-SBPA/ RCA supported bonds, or exercise its right to require bond holders to tender the variable rate debt and issue refunding bonds. The SBPA expire September 2016 and February 2017.

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. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for improved non-industrial disability benefits after 5 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.

Active plan members are required to contribute 7.0 percent of their annual covered salary. Metropolitan contributes the full 7.0 percent for active plan members hired before January 1, 2012. Employees hired after January 1, 2012 contribute the full 7.0 percent.

5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) Plan Description

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 CalPERS California Employers' Retiree Trust (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. This benefit was provided to 1,528 and 1,490 retired Metropolitan employees at September 30, 2015 and 2014, 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

Contribution requirements are negotiated between Metropolitan and its various bargaining units. During the three months ended September 30, 2015, 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. Metropolitan contributed, net of participant contributions as determined by CalPERS, $27,586,000 and $83,703,000, as of September 30, 2015 and 2014, respectively.

The September 30, 2015 contribution included a single payment of $23.1 million for the fiscal year 2016 annual required contribution (ARC) and $4.5 million of pay-as-you-go funding.

The September 30, 2014 contribution included the remaining $50.0 million of the $100.0 million funding approved by the Board in April 2014, $29.5 million of the entire ARC for fiscal year 2015, and $4.2 million of pay-as-you-go funding.

6. COMMITMENTS AND CONTINGENCIES

(a) State Water Contract (see Note 7)

Estimates of Metropolitan's share of the projected fixed costs of the State Water Project (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. 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	$	4,687,931,323
Conservation facilities		2,875,602,720
Off-aqueduct power facilities (see Note 6f)		42,777,982
East Branch enlargement		476,433,984
Revenue bond surcharge		588,869,660
Total long-term SWP contract commitments	$	8,671,615,669

Metropolitan intends to exercise its option to extend its agreement with the State through 2052, which will result in annual minimum operations and maintenance costs through 2052. 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, other than the $18.0 million obligation related to loss accruals on certain-off aqueduct power facilities (see Note 6f), 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 (Delta Vision Committee) tasked with developing a durable vision for sustainable management of the Delta over the long-term. The Delta Vision is anticipated to broaden the focus of past efforts and recommend actions that will address the full array of natural resource, infrastructure, land use, and governance issues necessary to achieve a sustainable Delta. The BRTF released its final Delta Vision Strategic Plan in October 2008. The Delta Vision Committee considered the BRTF's final strategic plan and submitted its final implementation report to the Governor in January 2009. Subsequently, the Delta Reform Act of 2009 was enacted, which created the Delta Stewardship Council, 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 DSC formed an Implementation Committee of agency representatives in 2014 to coordinate activities and actions with the goal of achieving successful implementation of the Delta Plan. In addition, the DSC is charged with developing a Delta Levee Investment Strategy (DLIS), and on May 28, 2015, the DSC issued the Notice of Preparation for the Draft Environmental Impact Report for the DLIS. The DLIS will identify priorities for levee rehabilitation and associated funding priorities, taking into account land uses, economic factors, and State needs. This investment strategy will be developed in collaboration with various state agencies and other important stakeholders and will be based on the best available data, research, and lessons learned from other state and local programs and planning efforts.

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. A public draft Environmental Impact Report/Environmental Impact Statement was released in December 2013 for comment through July 2014. Comments were received on this public draft, and on April 30, 2015, intent to include new alternatives separating the conveyance facilities and habitat restoration measures into two separate permitting efforts namely: California WaterFix and California EcoRestore were announced. Under the California WaterFix, the new water conveyance facilities with proposed design changes would be constructed and operated. With the California EcoRestore, the focus would be on environmental restoration programs. The environmental impact analysis for the proposed conveyance facilities in the California WaterFix, along with alternatives, was released for public review and comment from July 10, 2015 through October 30, 2015 in the partially Recirculated Draft Environmental Impact Report/Environmental Impact Statement (EIR/EIS). The comments received will be considered by the lead agencies and responses comments will be included in the Final EIR/EIS.

(c) Imperial Irrigation District

As of September 30, 2015, Metropolitan had advanced to the Imperial Irrigation District (IID) a total of $306.1 million 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 87,820-107,820 acre-feet in 2015 and 85,000-105,000 acre-feet of water annually thereafter depending upon the amount used by the Coachella Valley Water District. A total of at least 87,820 and 84,305 acre-feet will be/was available in calendar years 2015 and 2014, 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 (QSA) (see Note 6e). The amended Transfer Agreement sets the maximum transfer amount at 205,000 acre-feet in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200,000 acre-feet per year beginning in 2023.

No facilities exist to provide for delivery of water directly from IID to SDCWA. The Transfer Agreement provides that IID water be delivered to SDCWA through existing facilities owned by Metropolitan. On November 10, 1998, the boards of directors of Metropolitan and SDCWA authorized execution of an exchange contract, pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals. Metropolitan delivers an equal volume of water from its own sources of supply through portions of its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. In consideration for the conserved water made available to Metropolitan by SDCWA, a lower rate is paid by SDCWA for the exchange water delivered by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan's Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities (see 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 new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014 (see Note 6h). On May 30, 2014, SDCWA filed a lawsuit challenging the rates adopted by Metropolitan on April 8, 2014 and effective on January 1, 2015 and January 1, 2016. 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.

(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, the Coachella Valley Water District (CVWD), and Metropolitan. It also provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years and restores the opportunity for Metropolitan to receive any special surplus water.

On February 11, 2010, the Sacramento Superior Court issued its judgment in consolidated cases filed to determine or challenge the validity of the QSA and associated agreements. The court ruled that the QSA Joint Powers Agreement (pursuant to which IID, CVWD and SDCWA agreed to commit $163.0 million toward certain mitigation and restoration costs associated with implementation of the QSA and related agreements, and the State agreed to be responsible for any costs exceeding this amount) was invalid because the State's commitment was unconditional in nature and, as such, violated the State's debt limitation under the California Constitution. The court also invalidated eleven other agreements, including the QSA, because they were inextricably interrelated with the QSA Joint Powers Agreement.

In March 2010, Metropolitan, IID, CVWD, SDCWA, the State and others filed notices of appeal challenging various aspects of the trial court's ruling. On December 7, 2011, the court of appeal issued its ruling reversing, in part, the trial court's ruling. In particular, the court of appeal held the QSA Joint Powers Agreement to be constitutional. The court of appeal also rejected other challenges to this agreement and remanded the matter back to the trial court for further proceedings on the claims that had been dismissed as moot. A two-day bench trial was held on November 13, 2012. On June 4, 2013 the trial court issued its ruling, holding that IID had acted within its authority in executing these agreements and had complied with all substantive and procedural requirements imposed under State law. In addition, the court held that the environmental reviews conducted in support of the QSA and related agreements complied with the California Environmental Quality Act and its implementing regulations in all respects. In short, the trial court rejected all of the claims asserted by opponents of the QSA. The court issued a final statement of decision and entered a final judgment on July 31, 2013. A number of parties, including the County of Imperial and the Imperial County Air Pollution Control District, filed appeals challenging this decision on various grounds. Briefing by the parties to the appeals and cross-appeals was completed in August 2014. However, in late 2014 and early 2015, IID entered into settlement agreements with all of the appellants, resulting in dismissal of their appeals. The cross-appeals were then dismissed as moot, bringing to an end all litigation challenging the QSA and its related agreements.

(f) Abandoned Off-Aqueduct Power Facilities

The California Department of Water Resources (DWR) has financed the construction of certain off- aqueduct power facilities in order to provide power for water transportation purposes for the State Water Project system. Two geothermal facilities have been abandoned by DWR due to insufficient steam supply to operate the plants at their planned capacities. As a result of these actions by DWR, Metropolitan recorded losses of $204.1 million in prior fiscal years.

(g) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2016 through 2020 totals approximately $1.3 billion.

Over the next three years, approximately $750.0 million is budgeted in the capital program, with over $275.0 million planned for major projects such as the Weymouth Oxidation Retrofit Program (ORP), Chlorine Containment at the Chemical Unloading Facility, Diemer Basin Rehabilitation, Lakeview Pipeline Refurbishment, Palos Verdes Reservoir Floating Cover Replacement, Second Lower Feeder PCCP Refurbishment, Diemer Filter Building Upgrades, and Weymouth Filter Rehabilitation.

The capital program also includes $80.0 million of estimated costs for facilities that may be required to meet current water quality standards (see Note 6i).

(h) 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 State Water Contract costs to the System Access Rate and the System Power Rate, and thus affecting charges for transportation of water, resulting in an alleged overcharge to SDCWA by at least $24.5 million per year. The complaint alleges that all State Water Project costs should be allocated instead to Metropolitan’s Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It states additionally that Metropolitan will overcharge SDCWA by another $5.4 million per year by including the Water Stewardship Rate in transportation charges.

The complaint requested a court order invalidating the rates and charges adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with State Water Project supplies and the Water Stewardship Rate to water supply charges. Rates in effect in prior years are not challenged in this lawsuit. Metropolitan contends that its rates are reasonable, equitably apportioned among its member agencies and lawful. Nevertheless, to the extent that a court invalidates Metropolitan’s adopted rates and charges, Metropolitan will be obligated to reconsider and modify rates and charges to comply with any court rulings related to Metropolitan’s rates. While components of the rate structure and costs may change as a result of any such rulings, Metropolitan expects that aggregate rates and charges would still recover Metropolitan’s cost of service. As such, revenues would not be affected. If Metropolitan’s rates are revised in the manner proposed by SDCWA in the complaint, other member agencies may pay higher rates unless other actions are taken by the Board.

SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims are for breach of the water exchange agreement between Metropolitan and SDCWA (see Note 6d) based on allegedly illegal calculation of rates; improper exclusion of SDCWA's payments under this exchange agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies and illegality of "rate structure integrity" provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contains additional allegations but no new causes of action.

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. The complaint contains allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting Metropolitan's rates, adopted in April 2012, violate Proposition 26. Metropolitan contends that its rates adopted on April 10, 2012 are reasonable, equitably apportioned among its member agencies and lawful and were adopted under a valid rate structure and cost of service approach.

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. This ruling does not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations. On December 4, 2013, the court granted Metropolitan's motion for summary adjudication of the cause of action alleging illegality of the "rate structure integrity" provision in conservation and local resources incentive agreements, dismissing this claim in the first lawsuit.

Trial of the first phase of both lawsuits concluded January 23, 2014. This phase concerned the challenges to Metropolitan's rates. On April 24, 2014, the court issued its "Statement of Decision on Rate Setting Challenges," determining that SDCWA prevailed on two of its claims and that Metropolitan prevailed on the third claim. The court found that there was not sufficient evidence to support Metropolitan's inclusion in its transportation rates, and hence in its wheeling rate, of 100% of (1) payments it makes to the California Department of Water Resources for the State Water Project, or (2) the costs incurred by Metropolitan for conservation and local water supply development programs recovered through the Water Stewardship Rate. The court found that SDCWA failed to prove its "dry-year peaking" claim that Metropolitan's rates do not adequately account for variations in member agency purchases.

SDCWA's claims asserting breach of the exchange agreement and miscalculation of preferential rights were tried in a second phase of the case which concluded April 30, 2015. On August 28, 2015, the trial court issued a final statement of decision for the second phase. The decision finds in favor of SDCWA on both claims. The trial court's ruling in the cases will be subject to appeal. Metropolitan is unable to assess at this time the likelihood of success of this litigation, any possible appeal or any future claims. Further, as the estimated liability is indeterminable at this time, no amounts have been presently recorded in the financial statements.

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

A number of other suits and claims arising in the normal course of business are pending against Metropolitan. In the opinion of Metropolitan's General Counsel, the adverse results, if any, of such legal actions on these suits and claims will not have a material effect on Metropolitan's financial position, changes in net position, or liquidity.

(i) 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 Mills, Jensen, and Skinner plants. Construction of ozonation facilities at the Diemer plant was completed in June 2013 and start-up is underway, while ozonation facilities at the Weymouth plant are under construction and should be completed in 2016. The estimated cost of implementing ozone treatment at all five plants is approximately $1.1 billion.

(j) 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, the California Department of Water Resources (DWR) entered in to 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 pays 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.

(k) 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 expenses were incurred for postclosure maintenance and monitoring activities during the three months ended September 30, 2015.

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 September 30, 2015 and 2014, approximately $815,000 and $796,000 net of interest receipts and disbursements were available, respectively, in this account.

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 16 percent and 19 percent of Metropolitan's total expenditures during the three months ended September 30, 2015 and 2014, respectively, 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.

Management's present intention is to exercise Metropolitan's option to extend the contractual period to at least 2052, under substantially comparable terms. This corresponds to an estimated 80-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 (see Note 6f).

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1h 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 information provided by the State of California. In fiscal year 2006, the formula was modified to use maximum annual contracted deliveries as the production capacity estimate. Amortization expense totaled $28.0 million and $27.3 million for the three months ended September 30, 2015 and 2014, respectively.

8. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at September 30, 2015 and 2014 were as follows:

	September 30,	
(Dollars in thousands)	**2015**	2014
Prepaid water costs	**$ 153,685**	$ 191,368
Prepaid costs-Delta Habitat conservation and conveyance	**59,104**	58,654
Prepaid costs-Bay/Delta	**2,252**	2,357
Prepaid expenses	**13,440**	13,158
Preliminary design/reimbursable projects	**9,735**	11,130
Other	**149,704**	148,644
Total deposits, prepaid costs, and other	**387,920**	425,311
Less current portion	**(149,617)**	(143,251)
Noncurrent portion	**$ 238,303**	$ 282,060

(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 State Water Project 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 September 30, 2015 and 2014, prepaid water costs totaled approximately $153.7 million and $191.4 million, respectively, based on volumes of 753,000 acre-feet and 944,000 acre-feet, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance

In March 2009, Metropolitan, other State Water Project contractors, federal Central Valley Project contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with the California Department of Water Resources (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 through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. If the BDCP is approved, including construction of new Delta water conveyance facilities, DWR intends to issue revenue bonds in an amount sufficient to reimburse Metropolitan for funds advanced through these agreements for planning and environmental studies. If the BDCP is not approved to proceed with construction, no reimbursement will occur.

(c) Prepaid Costs—Bay/Delta

In December 1994, representatives from state and federal resource agencies, and urban, agricultural, and environmental agencies agreed to a set of principles to implement a protection plan for the San Francisco Bay/Delta Estuary. Among the principles was a commitment by agricultural and urban water agencies to fund $60.0 million to help initiate a comprehensive program to address nonoutflow-related impacts to the Bay/Delta environment. The Secretary of the Interior requested Metropolitan to guarantee $10.0 million annually for three years, for a total of $30.0 million, to be made available for the restoration fund created by the principles. Metropolitan's final payment of its $30.0 million commitment was made in June 1998. Metropolitan's contributions are accounted for as prepaid costs that are charged to expense based on expenses by the restoration fund. The amount charged to expense totaled $150,000 and $218,000 for the three months ended September 30, 2015 and 2014, respectively. During fiscal year 2001, Metropolitan became trustee for the unspent funds, which totaled $2.3 million and $2.4 million at September 30, 2015 and 2014, 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.

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.

Investment of the funds is managed by a third-party administrator, accordingly, at September 30, 2015 and 2014, 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. 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. 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.

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. Metropolitan's capital assets, including State Water Project costs include plant and equipment (Note 1g), participation rights in State Water Project (Notes 1h and 7), and participation rights in other facilities. Net investment in capital assets, including State Water Project costs were approximately $6.0 billion and $5.6 billion at September 30, 2015 and 2014, respectively.

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 $278.1 million and $247.3 million at September 30, 2015 and 2014, respectively, of which $86.8 million and $103.2 million, respectively, is related to bond covenants. The remaining $191.3 million and $144.1 million, respectively, relate to estimated operating and maintenance expense for October and November of the subsequent fiscal quarter.

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 $580.3 million and $1,508.8 million at September 30, 2015 and 2014, respectively.

11. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to design, construction, treatment, and delivery of water resources. Metropolitan self-insures most Metropolitan property losses, the first $25.0 million for general liability and $5.0 million for workers' compensation. Metropolitan supplements its self-insurance program with $75.0 million excess general liability coverage and $50.0 million excess workers' compensation insurance. Additional excess liability policies also purchased include $60.0 million for fiduciary liability and $65.0 million for directors' and officers' liability. Special insurance policies purchased 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 2016 were unchanged from fiscal year 2015. 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% annual interest rate over the life of the claims.

12. SUBSEQUENT EVENT

On November 18, 2015, the court issued the Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. On November 19, 2015, Metropolitan filed a Notice of Appeal of the Judgment and Writ in each case. See further discussion of this matter in footnote 6(h), Commitments and Contingencies – Claims and Litigation.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a summary of certain provisions of the Master Resolution and the Twenty-First Supplemental Resolution. This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing documents for a complete statement of the provisions of such documents.

DEFINITIONS

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

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

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

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

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

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

"Authorized Denominations" means $5,000 and any integral multiple thereof.

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

"Bond Obligation" means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

"Bond Reserve Requirement" means, the reserve requirement established for a Series of 2015 Authorization Bonds under the terms of the Sales Documents or Trust Agreement with respect to such Series and pursuant to the terms of the Twenty-First Supplemental Resolution.

"Bond Service Fund" means the Water Revenue Bonds, Bond Service Fund established pursuant to the Master Resolution.

"Bonds" means The Metropolitan Water District of Southern California Water Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Resolution.

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

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

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

"Code" means the Internal Revenue Code of 1986, as amended.

"**Construction Costs**" means the cost of acquiring, constructing, reconstructing, replacing, extending and improving any project eligible to be financed under the Act.

"**Construction Fund**" means, with respect to a Series of 2015 Authorization Bonds, the Water Revenue Bonds 2015 Authorization Construction Fund established for such Series pursuant to the Twenty-First Supplemental Resolution.

"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 such Series of Bonds and/or the purchase price of such Series of Bonds or portion thereof. A Credit Facility may be comprised of one or more credit facilities issued by one or more financial institutions.

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

"Excess Earnings Fund" means, with respect to a Series of 2015 Authorization Bonds, the Water Revenue Bonds 2015 Authorization Excess Earnings Fund established for such Series pursuant to the Twenty-First Supplemental Resolution.

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

"Expenditures" means cash disbursements of Metropolitan.

"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**" has the meaning ascribed to such term in the Master Resolution; provided that upon redemption of any 2015 Authorization Capital Appreciation Bonds prior to their respective maturity date, then such term will refer to the Accreted Value of such Bonds on their respective redemption date.

"Fiscal Agent" means, the fiscal agent appointed pursuant to the Twenty-First Supplemental Resolution.

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

"**Fixed Rate Bonds**" means 2015 Authorization Bonds other than Variable Rate Bonds.

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

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard & Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and such other services providing information with respect to called bonds as Metropolitan may designate in a Request of Metropolitan delivered to any Fiscal Agent.

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

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

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

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

(b) if the Parity Obligations or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues subordinate to the lien of the Parity Obligations or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Obligations or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity

Obligations or Bonds on the date of calculation or, if such Parity Obligations or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Obligations or Bonds would bear if they were Outstanding on such date, as certified by a certificate of a financial advisor or investment banker delivered to Metropolitan;

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

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

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

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

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

(i) 0, and

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

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

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

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

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

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

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

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

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

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

“**Paying Agent**” means a paying agent appointed pursuant to the Twenty-First Supplemental Resolution.

“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.

“Rating Agencies” means either or both of Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. 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 by the Master Resolution with respect to the Bonds.

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

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

“**Remarketing Agent**” means, with respect to a Series of Variable Rate Bonds, a remarketing agent appointed by Metropolitan from time to time pursuant to the applicable Trust Agreement.

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

“Reserve Fund” means, with respect to a Series of 2015 Authorization Bonds, the Water Revenue Bonds 2015 Authorization Reserve Fund established for such Series pursuant to the Twenty-First Supplemental Resolution.

“Reserve Fund Credit Policy” means, with respect to a Series of 2015 Authorization Bonds, an insurance policy, surety bond, letter of credit or other credit facility deposited with the Fiscal Agent pursuant to the Twenty-First Supplemental Resolution.

“Resolution” means the Master Resolution as supplemented, modified or amended by each Supplemental Resolution, including without limitation, the Twenty-First Supplemental Resolution.

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

“**Sales Documents**” means, in the case of a negotiated sale, that certain bond purchase contract or other agreement for the purchase of one or more Series of 2015 Authorization Bonds between Metropolitan and the Underwriters for such Series or, in the case of a competitive sale, the notice of sale, bid form and other documents providing for the sale of one or more Series of 2015 Authorization Bonds by Metropolitan to the Underwriters.

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

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

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

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

“Tax Certificate” with respect to a Series of 2015 Authorization Bonds, the Tax and Nonarbitrage Certificate of Metropolitan delivered by Metropolitan in connection with the issuance of such Series of 2015 Authorization Bonds.

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

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

“**Trust Agreement**” means the trust agreement, paying agent agreement or such other instrument or instruments executed and delivered in connection with the issuance of a Series of 2015 Authorization Bonds and which sets forth the terms and conditions of such Series of 2015 Authorization Bonds and which appoints any Paying Agent, Remarketing Agent or other agent with respect to such Series of 2015 Authorization Bonds.

“**2015 Authorization Bonds**” means the Bonds described in the Twenty-First Supplemental Resolution, authorized and issued pursuant to the Master Resolution, as supplemented by the Twenty-First Supplemental Resolution, and includes Fixed Rate Bonds and Variable Rate Bonds.

“**2015 Authorization Capital Appreciation Bonds**” means the 2015 Authorization Bonds issued as Capital Appreciation Bonds as described in the Twenty-First Supplemental Resolution.

“**Underwriters**” means, with respect to a Series of 2015 Authorization Bonds, in the case of a negotiated sale, the original purchaser or purchasers of such Series of 2015 Authorization Bonds and in the case of a competitive sale, the successful bidder or bidders for such Series of 2015 Authorization Bonds.

“**Variable Rate Bonds**” means 2015 Authorization Bonds bearing interest as determined from time to time by a Remarketing Agent, a calculation agent, pursuant to an index or otherwise.

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

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

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

THE MASTER RESOLUTION

General

The Master Resolution authorizes the creation of "The Metropolitan Water District of Southern California Water Revenue Bonds," which Bonds may be issued in the aggregate principal amount set forth under the Act and the Resolutions as described in the Official Statement, and shall be issued in Series pursuant to Supplemental Resolutions adopted under the terms and conditions provided in the Master Resolution. Metropolitan will not fund a reserve fund for the 2015A Bonds.

Supplemental Resolutions; Additional Bonds

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

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

Redemption of Bonds

Terms of Redemption. Each Series of Bonds may be made subject to redemption prior to its respective stated maturities, as a whole or in part, at such time or times, upon such terms and conditions and upon such notice and with such effect as may be provided in the Supplemental Resolution creating such Series of Bonds. The 2015A Bonds are not subject to redemption prior to their maturity.

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

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

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

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Master Resolution, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption a portion of a Bond, Metropolitan shall execute and the Fiscal Agent for that Bond shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, a Bond of like Series and maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption dates, shall be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portion thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Pledge of Net Operating Revenues

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

Equality of Security

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

Water Revenue Fund

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

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

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

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

Reserve Funds. Metropolitan shall deposit as soon as practicable in each calendar month in any reserve fund or account established under a Supplemental Resolution for a Series of Bonds and in any reserve fund or account established for any Parity Obligations, upon the occurrence of any deficiency therein, one-sixth (1/6th) of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve fund or account. If there shall be a deficiency of Operating Revenues to make the deposits required by this paragraph, such Operating Revenues shall be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency. **The 2015A Bonds are not secured by a reserve fund or account.**

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

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

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

Establishment, Funding and Application of Redemption Fund

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

Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a request of Metropolitan.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent under the Resolution shall be invested solely in any securities in which Metropolitan may legally invest funds subject to its control; provided that such securities must mature or be available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or any Fiscal Agent.

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

Covenants

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

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

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

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

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

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

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

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

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

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

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

<u>Limits on Additional Debt</u>. Except Refunding Bonds or Parity Obligations to the extent incurred to pay or discharge Outstanding Bonds or Parity Obligations and which do not result in an increase in the average annual debt service on all Bonds or Parity Obligations to be Outstanding after the issuance of such Refunding Bonds or Parity Obligations, no additional Bonds or Parity Obligations shall be created or incurred unless:

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

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

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

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

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

(c) Any Additional Revenues.

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

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

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

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

Amendments to Master Resolution

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

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

The Master Resolution and the rights and obligations of Metropolitan of each Fiscal Agent and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Resolution, which the Board may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of Metropolitan to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), to surrender any right or power reserved to or conferred upon Metropolitan, each of which shall not materially and adversely affect the interests of the Owners of the Bonds, (2) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in the Master Resolution, or in regard to matters or questions arising under the Master Resolution, and which shall not materially and adversely affect the interests of the Owners of the Bonds, (3) to modify, amend or supplement the Master Resolution to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners of the Bonds, (4) to provide for the issuance of a Series of Bonds with such interest rate, payment, maturity and other terms as Metropolitan may deem desirable, subject to certain limitations under the Master Resolution with respect to the issuance of Bonds, (5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of the Bonds, (6) if Metropolitan has covenanted in a Supplemental Resolution to maintain the exclusion of interest on any Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion, and (7) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

Defeasance

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

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

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

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

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

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

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bond Obligation and all unpaid interest thereon to maturity or the Redemption Price and unpaid interest thereon to the redemption date, as the case may be; or

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

Payment of Bonds After Discharge of the Master Resolution

Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in the Master Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when such Bond became so due and payable, shall, upon Request of Metropolitan, be released from the trusts created by the Master Resolution and transferred to the Treasurer, and all liability of the Fiscal Agent for such Series, an escrow agent or other fiduciary with respect to such moneys shall thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of Metropolitan) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on Bonds of such Series, whether at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary shall not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than Metropolitan) for any interest earned on, moneys so held. Any interest earned thereon and not needed to pay principal or Accreted Value of or interest on the Bonds shall be promptly released to Metropolitan and shall be promptly deposited into the Water Revenue Fund.

Defaults and Remedies under the Master Resolution

Events of Default. Each of the following events shall be an "Event of Default":

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

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

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

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

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

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

The provisions of subsection (c) above are subject to the limitation that if by reason of force majeure Metropolitan is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Master Resolution, Metropolitan shall not be deemed in default during the continuance of such disability. The term "force majeure" as used in the Master Resolution shall include without limitation acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; epidemics; landslides; lightning; earthquakes; fires; riots; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people, civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of Metropolitan. Metropolitan shall, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of Metropolitan, and Metropolitan shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

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

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

Receiver. Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding shall be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as Metropolitan itself might do.

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

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

THE TWENTY-FIRST SUPPLEMENTAL RESOLUTION

Establishment of Funds; Covenants

Establishment and Application of Construction Fund.

(A) Metropolitan will establish, and the Treasurer will maintain and hold in trust, a separate fund which will be designated as the "Water Revenue Bonds 2015 Authorization Series A Construction Fund" and will bear such additional designation as determined by an authorized representative. The moneys in the Construction Fund will be used and withdrawn by the Treasurer to pay Construction Costs. All investment earnings on funds held in the Construction Fund will be credited to such fund unless otherwise specified in a certificate of an authorized representative.

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

Establishment, Pledge, Funding and Application of Reserve Funds.

(A) In connection with the issuance of each Series of 2015 Authorization Bonds pursuant to the Twenty-First Supplemental Resolution, Metropolitan may establish and, if established, the Treasurer will maintain and hold in trust a separate fund for such Series designated as the "Water Revenue Bonds 2015 Authorization Series _____ Reserve Fund" (inserting the designation for each Series of 2015 Authorization Bonds) and will bear such additional designation as determined by an authorized representative. Each Reserve Fund will be funded as set forth in the Twenty-First Supplemental Resolution and applied as set forth therein. All amounts held by the Treasurer in a Reserve Fund established with respect to a Series of 2015 Authorization Bonds will be pledged to secure the payment of the principal and Final Compounded Amount of, and interest on, such Series of 2015 Authorization Bonds in accordance with their terms.

(B) Metropolitan will at all times maintain an amount equal to the applicable Bond Reserve Requirement in a Reserve Fund established with respect to a Series of 2015 Authorization Bonds until such Series is discharged in accordance with the provisions of the Master Resolution. The amount of the Bond Reserve Requirement applicable to a designated Series of 2015 Authorization Bonds will be set forth in the Sales Documents for such Series of 2015 Authorization Bonds. In the event of any deficiency in a Reserve Fund, the Treasurer will replenish such deficiency in accordance with the provisions of the Master Resolution.

(C) All amounts in a Reserve Fund established with respect to a Series of 2015 Authorization Bonds will be used and withdrawn by the Treasurer, as provided in the Twenty-First Supplemental Resolution, solely for the purpose of: (i) paying principal and Final Compounded Amount of, and interest on, such Series of 2015 Authorization Bonds in the event that moneys in the Bond Service Fund are insufficient; or (ii) for the payment of the final principal and Final Compounded Amount and interest payment on such Series of 2015 Authorization Bonds. Any amounts in a Reserve Fund established with respect to a Series of 2015 Authorization Bonds in excess of the Bond Reserve Requirement for such Series will be transferred to the Bond Service Fund for such Series unless otherwise specified in a Certificate of an Authorized Representative.

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

(D) Notwithstanding anything in the Twenty-First Supplemental Resolution to the contrary, at the option of Metropolitan, amounts required to be held in a Reserve Fund may be substituted, in whole or in part, by the deposit with the Fiscal Agent of a Reserve Fund Credit Policy in a stated amount equal to the amounts so substituted, provided that prior to the substitution of such Reserve Fund Credit Policy the Rating Agencies are notified of such proposed substitution and the substitution does not result in a downgrading or withdrawal of any rating of such Series of 2015 Authorization Bonds then in effect by the Rating Agencies. Any such substituted moneys will be applied as provided in a certificate of an authorized representative.

So long as a Reserve Fund Credit Policy is in force and effect with respect to such Series of 2015 Authorization Bonds, any deposits required to be made with respect to the applicable Reserve Fund pursuant to the Master Resolution will include any amounts due to the provider of such Reserve Fund Credit Policy resulting from a draw on such Reserve Fund Credit Policy (which amounts constitute a "deficiency" or "withdrawal" from the applicable Reserve Fund within the meaning of the Master Resolution). Any such amounts will be paid to the provider of such Reserve Fund Credit Policy as provided in such Reserve Fund Credit Policy or any related agreement.

Establishment and Application of Excess Earnings Funds. To ensure proper compliance with the tax covenants contained in the Twenty-First Supplemental Resolution, Metropolitan will establish and the Treasurer will maintain a fund for each Series of 2015 Authorization Bonds issued under the Twenty-First Supplemental Resolution, which fund will be separate from any other fund or account established and maintained thereunder or under the Master Resolution designated as the "Water Revenue Bonds 2015 Authorization Excess Earnings Fund" and will bear such additional designation as determined by an authorized representative. All money at any time deposited in the Excess Earnings Fund with respect to a Series of 2015 Authorization Bonds in accordance with the provisions of the Tax 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 the Owner of any bonds of such Series of 2015 Authorization Bonds 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 Twenty-First Supplemental Resolution and by the applicable Tax Certificate. The Treasurer will invest all amounts held in any such Excess Earnings Fund in accordance with the applicable Tax Certificate. Money will not be transferred from the Excess Earnings Fund established for a Series of 2015 Authorization Bonds except in accordance with the Tax Certificate with respect to such Series.

Tax Covenants. In order to maintain the exclusion from gross income of the interest on the 2015 Authorization 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, each Tax Certificate, as a source of guidance for compliance with such provisions.

Notwithstanding any other provisions of the Master Resolution or the Twenty-First Supplemental 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 2015 Authorization Bonds will be entitled to exercise any right or remedy provided to the Owners under the Master Resolution or the Twenty-First Supplemental Resolution on the basis of Metropolitan's failure to observe, or refusal to comply with, such covenant.

Establishment and Application of Additional Funds. In addition to the funds established pursuant to the Master Resolution and the Twenty-First Supplemental Resolution, there will be established and maintained such additional funds and/or accounts as are set forth in the Trust Agreement, if any, including funds with respect to the purchase and remarketing of Variable Rate Bonds, with respect to the payments to be made by Metropolitan under any interest rate swap agreement or agreements entered into by Metropolitan, and for such other purposes as Metropolitan or the Fiscal Agent deem necessary or desirable.

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the caption "—General" below has been provided by DTC. Metropolitan makes no representations as to the accuracy or completeness of such information. Further, Metropolitan undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC's websites as described under the caption "—General," including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites. The beneficial owners of the 2015A Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER METROPOLITAN NOR THE FISCAL AGENT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO: (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2015A BONDS UNDER THE RESOLUTIONS; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2015A BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2015A BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2015A BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

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

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

Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated herein by reference.

Purchases of the 2015A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2015A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2015A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2015A Bonds, except in the event that use of the book-entry system for the 2015A Bonds is discontinued.

To facilitate subsequent transfers, all 2015A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2015A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2015A Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2015A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2015A Bonds documents. For example, Beneficial Owners of the 2015A Bonds may wish to ascertain that the nominee holding the 2015A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2015A Bonds of like maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2015A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Metropolitan as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2015A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2015A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Metropolitan or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the 2015A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NEITHER METROPOLITAN NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Metropolitan, the Fiscal Agent and the Underwriters cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal or interest on the 2015A Bonds paid to DTC or its nominee as the registered owner, or will distribute any notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Metropolitan, the Fiscal Agent and the Underwriters are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2015A Bonds or for an error or delay relating thereto.

DTC may discontinue providing its services as depository with respect to the 2015A Bonds at any time by giving reasonable notice to Metropolitan or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2015A Bond certificates are required to be printed and delivered.

Metropolitan may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2015A Bond certificates will be printed and delivered to DTC.

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

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF 2015A BONDS AND WILL NOT BE RECOGNIZED BY THE FISCAL AGENT AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

If the book-entry only system is discontinued, payments of principal and purchase price of and interest on the 2015A Bonds will be payable as described in this Official Statement under the caption "DESCRIPTION OF THE 2015A BONDS—General."

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APPENDIX E

SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA

This Appendix E has been prepared by the Center for Continuing Study of the California Economy. Forward-looking statements are those of the Center for Continuing Study of the California Economy. Neither the Center for Continuing Study of the California Economy nor Metropolitan is obligated to issue any updates or revisions to the data set forth in this Appendix E.

General

The map contained in the body of the Official Statement 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 2014, the economy of the Six County Area was larger than all but fifteen nations of the world. The Six County Area economy ranked between Mexico ($1.28 trillion) and Indonesia ($888 billion), with an estimated gross domestic product ("GDP") of just over $1.25 trillion. The Six County Area's gross domestic product in 2014 was larger than all states except California, Texas and New York.

RANKING OF AREAS BY GROSS DOMESTIC PRODUCT
(Dollars in Billions)
2014

United States	$17,348
China	10,360
Japan	4,601
Germany	3,853
United Kingdom	2,942
France	2,829
Brazil	2,346
California	2,312
Italy	2,144
India	2,067
Russian Federation	1,861
Canada	1,787
Texas	1,648
Australia	1,454
South Korea	1,410
New York	1,404
Spain	1,404
Mexico	1,283
Six County Area	1,254
Indonesia	888

Source: Countries: World Bank; U.S.: Bureau of Economic Analysis; California and Six County Area: U.S. Department of Commerce.

Summary of Recent Trends and Outlook for the Six County Area Economy

The national economy has expanded since 2009 although at growth rates below the historical average for economic recoveries. Private sector nonfarm wage and salary job levels in August 2015 were nearly 4.3 million above the pre-recession peak level, including a gain of over 850,000 manufacturing jobs and 734,000 construction jobs since the recession low. The unemployment rate in the nation has declined from near 9.8% in November 2010 to 5.1% in August 2015.

Housing starts and new permits have rebounded as the number of foreclosures has declined and housing prices have risen in most parts of the country, although the pace of housing recovery has slowed in recent months. Consumer price increases remain well below 2% annually aided by the decline in oil prices and the Federal Reserve Bank has reaffirmed that it will keep interest rate targets low until the economic outlook warrants a more accommodative monetary policy. In late September the Federal Reserve Bank Chair suggested that a first rate increase could come by the end of 2015.

The Six County Area has regained all the jobs lost during the recession and more. Revised job estimates released in March 2015 show that job gains in 2013 and 2014 were much larger than previously reported and higher than the national growth rate. Year-over-year job gains are continuing into 2015 and between August 2014 and August 2015 job growth for the entire Six County Area was 214,200 jobs or a gain of 2.5% compared to a 2.1% increase in jobs for the nation.

Unemployment rates in the Six County Area have declined sharply between 2010 and August 2015. In August 2015 unemployment rates ranged from a low of 5.1% in Orange County to a high of 7.0% in Riverside and Los Angeles counties. Income, taxable sales, assessed valuation and housing prices rose in 2013 and 2014. Residential building permits rebounded in 2013 and 2014 and are up 22% for the first seven months of 2015. Nonresidential permit levels reached a record $12.3 billion in 2014 and are down 5% in the first seven months of 2015.

The Six County Area is experiencing growth in both domestic and foreign visitors. Hotel rates and occupancy are increasing in the Six County Area and the same is true for employment in the hotel and amusement park sectors. In 2014 Los Angeles County set tourism records in visitors (44.2 million), hotel occupancy rates (78.9%) and average daily rate ($147.30). Foreign travel to the region is outpacing domestic travel with large gains in visitors from China of +20.4% in 2014 to 686,000 visitors. Air passenger travel in the Six County Area reached a record level in 2014 and is up again in 2015.

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

Long-term job growth is driven by the Six County Area's economic base—those sectors that sell most of their goods and services in national and world markets outside of the Six County Area. Recent projections by the Center for Continuing Study of the California Economy ("CCSCE"), the Southern California Association of Governments ("SCAG") and the San Diego Association of Governments ("SANDAG") report that the Six County Area will see job growth that slightly exceeds the national average during the next 10 to 30 years, led by gains in Professional and Business Services, Wholesale Trade, Tourism and Entertainment and Health Care.

The recent growth in taxable sales, assessed valuation and hotel occupancy in the Six County Area has led to higher revenue growth for cities and counties and allowed them to rehire some of the local government and school employees who were laid off during the recession.

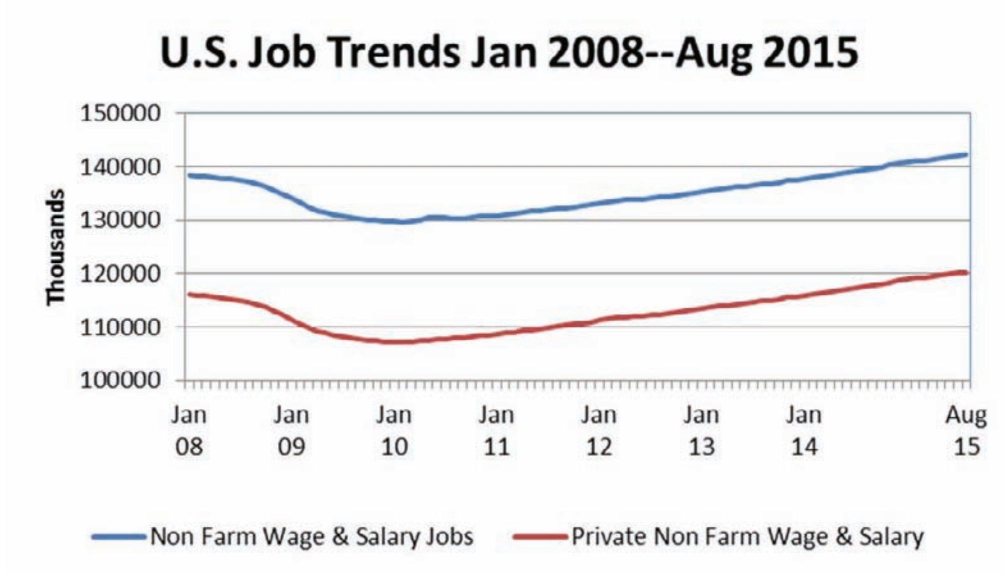
An Update on the U.S. Economic Outlook

The national economy has expanded since 2009 although at growth rates below the historical average for economic recoveries. GDP increased by 3.9% in the second quarter of 2015 following a gain of only 0.6% in the first quarter. First quarter GDP was weak in both 2014 and 2015 in part due to temporary factors. On the other hand private sector job levels have increased substantially since March 2010 and the unemployment rate declined to 5.1% in August 2015 and nearly back to the pre-recession low in unemployment rates.

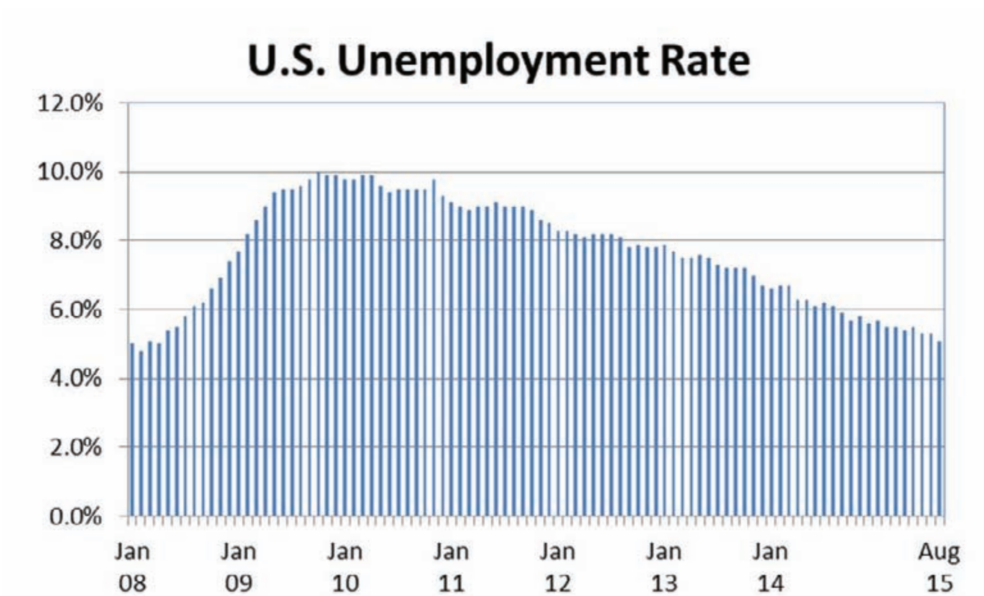
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

The nation lost 8.8 million private sector jobs between January 2008 and December 2009. Private sector nonfarm wage and salary job gains from December 2009 through August 2015 totaled 13.1 million including an increase of just over 850,000 manufacturing and 734,000 construction jobs (see figure below). In August 2015, nonfarm wage and salary job levels were 3.9 million above the pre-recession peak, driven by average gains of over 234,000 jobs per month for the preceding 24 months. Private sector nonfarm wage and salary jobs surpassed the prerecession peak by nearly 4.3 million jobs in August 2015, but government sector jobs were still approximately 400,000 below the pre-recession peak level.

The unemployment rate in the nation has declined from near 9.8% in November 2010 to 5.1% in August 2015 (see figure below). The last time the unemployment rate was this low was in April 2008. Part of the decline is the result of recent job growth and part is the result of slow labor force growth related to retirements and people who have temporarily stopped looking for work. The number of people who work part time but want full time work and the number of residents unemployed for more than 26 weeks were reduced during the past year but remain above pre-recession levels.



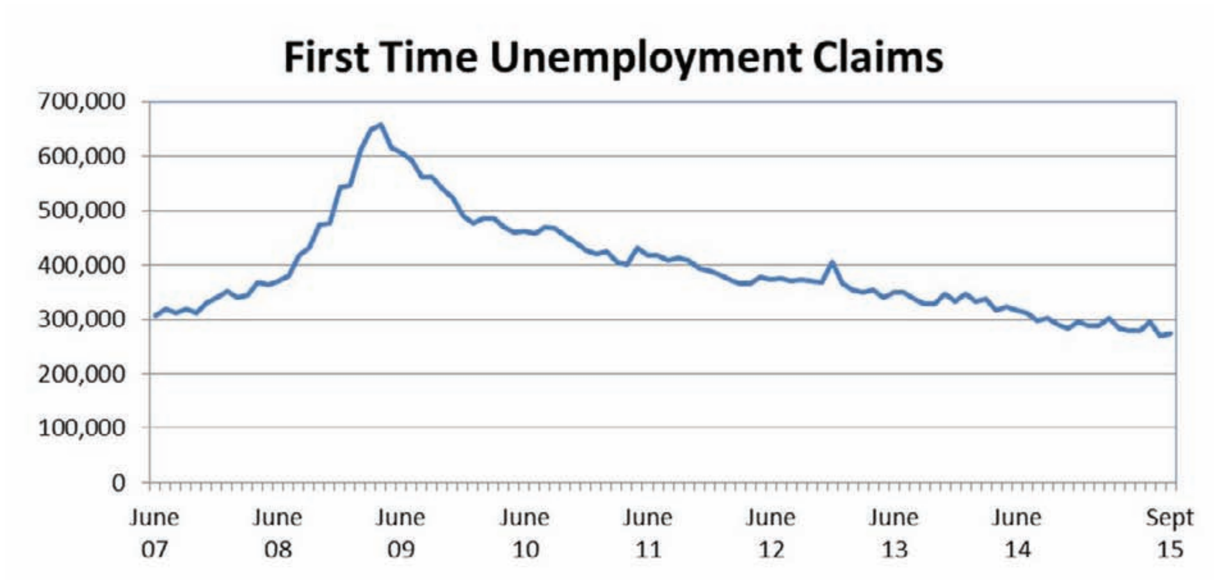
Source: Bureau of Labor Statistics, U.S. Department of Labor.



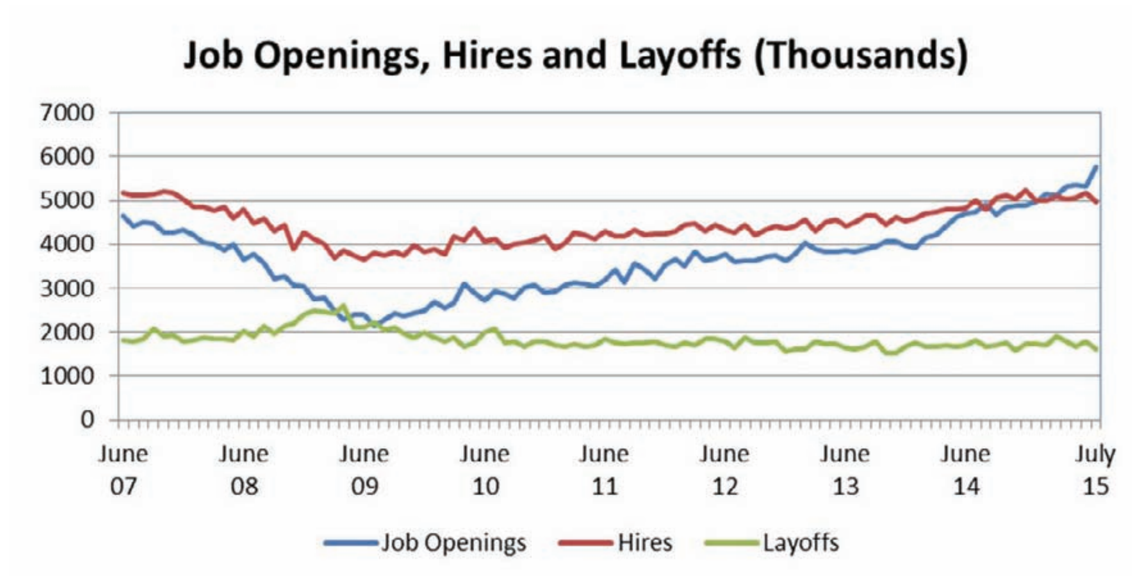
Source: Bureau of Labor Statistics, U.S. Department of Labor

Two other labor market indicators confirm that the job market is continuing to strengthen. First time claims for unemployment have declined to levels last seen before the recession (see figure below). The four-week average for the week ending September 5, 2015 was 275,000, marking six straight months with initial claims below 300,000 and below the pre-recession level.

The number of job openings in July 2015 was over 5.7 million, exceeding the number in June 2007 and an all-time record (see figure below). The number of new hires has been rising steadily and reached 5.0 million in February 2015 but was still slightly less than the 5.2 million new hires in June 2007. The number of layoffs has been fairly steady. In July 2015, there were 1.6 million layoffs, which was below the level in June 2007 (1.8 million).



Source: U.S. Department of Labor.



Source: U.S. Department of Labor.

Most forecasts for and 2016 and 2017 expect stronger, but moderate, GDP growth compared to 2014 and continued moderate job growth. For example, the Congressional Budget Office forecast released in August 2015 forecasts GDP growth of 3.1% in 2016 and 2.7% in 2017, with the national unemployment rate falling to 5.0% in the fourth quarter of 2017.

There are some positive trends for near term economic growth in addition to the job growth and unemployment trends. The Federal Reserve Bank has not raised the federal funds rate as of September 2015 although a small rate hike by year end was anticipated in a speech delivered by the Federal Reserve Bank Chair in late September 2015. Treasury bond rates and 30-year mortgage rates remain low compared to historical averages. Consumer and producer prices are still increasing at a rate less than 2% per year and recent declines in oil prices are increasing consumers' disposable income. Wage growth has increased slightly and is growing faster than consumer prices. Housing prices are still recovering and foreclosures are back to pre-recession levels in most areas.

The following pages describe current economic trends in the Six County Area and describe the long-term prospects for job and population growth based on the assumption that the current economic recovery will continue with moderate job growth.

Recent Six County Area Job Growth Trends

The Six County Area has regained all the jobs lost during the recession and more. Revised job estimates released in March 2015 show that job gains in 2013 and 2014 were much larger than previously reported. Year-over-year job gains (see the table below) are continuing into 2015 and between August 2014 and August 2015 ranged from a high of 3.5% in Riverside-San Bernardino metro area to a low of 0.9% in Ventura County. Job growth for the entire Six County Area was 214,200 jobs or a gain of 2.5% compared to a 2.1% increase in jobs for the nation.

Job growth was aided by gains in foreign trade, tourism and professional services as well as a rebound in construction and related sectors and continuing growth in health care and food services.

RECENT EMPLOYMENT TRENDS
(Non-Farm Wage and Salary Jobs in Thousands)

	2007	*2010*	*2013*	*2014*	*Aug 14*	*Aug 15*	*Aug 14-15 % Change*
Los Angeles	4,227.4	3,888.4	4,129.8	4,226.4	4,213.0	4,289.3	1.8%
Orange	1,521.0	1,366.0	1,459.4	1,495.9	1,492.4	1,540.9	3.2
Riverside-San Bernardino	1,286.0	1,144.2	1,231.9	1,285.1	1,280.0	1,324.5	3.5
San Diego	1,319.7	1,236.4	1,317.8	1,348.0	1,349.0	1,391.4	3.1
Ventura	297.8	274.6	287.9	293.0	291.9	294.4	0.9
Total Six County Area	8,651.9	7,909.6	8,426.8	8,648.4	8,626.3	8,840.5	2.5

Source: California Employment Development Department (EDD).

The large job losses in 2008 and 2009 resulted in a sharp rise in unemployment rates throughout the Six County Area between 2006 and 2010. (See the table below)

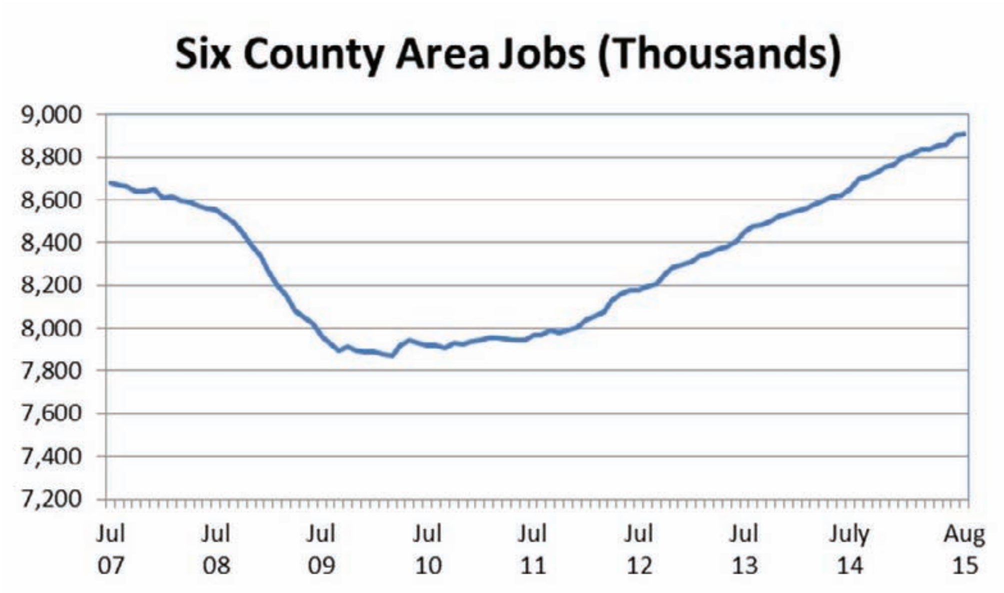
Unemployment rates in the Six County Area have declined sharply between 2010 and August 2015. In August 2015 unemployment rates ranged from a low of 4.5% in Orange County to a high of 7.0% in Riverside and Los Angeles counties. Unemployment rates for the counties are not seasonally adjusted and peak in the summer months. All counties in the Six County Area experienced a substantial decline in unemployment rates between August 2014 and August 2015.

UNEMPLOYMENT RATES

	2000	*2006*	*2010*	*2013*	*2014*	*Aug 14*	*Aug 15*
Los Angeles County	5.4%	4.8%	12.5%	9.8%	8.3%	8.6%	7.0%
Orange County	3.5	3.4	9.7	6.5	5.5	5.8	4.5
Riverside County	5.4	5.0	14.5	10.3	8.2	8.8	7.0
San Bernardino County	4.8	4.8	14.2	10.3	8.0	8.3	6.5
San Diego County	3.9	4.0	10.7	7.8	6.4	6.6	5.1
Ventura County	4.5	4.3	10.8	7.9	6.7	7.0	5.8
United States	4.0	4.6	9.6	7.4	6.2	6.1	5.1
State of California	4.9	4.9	12.2	8.9	7.5	7.4	6.1

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

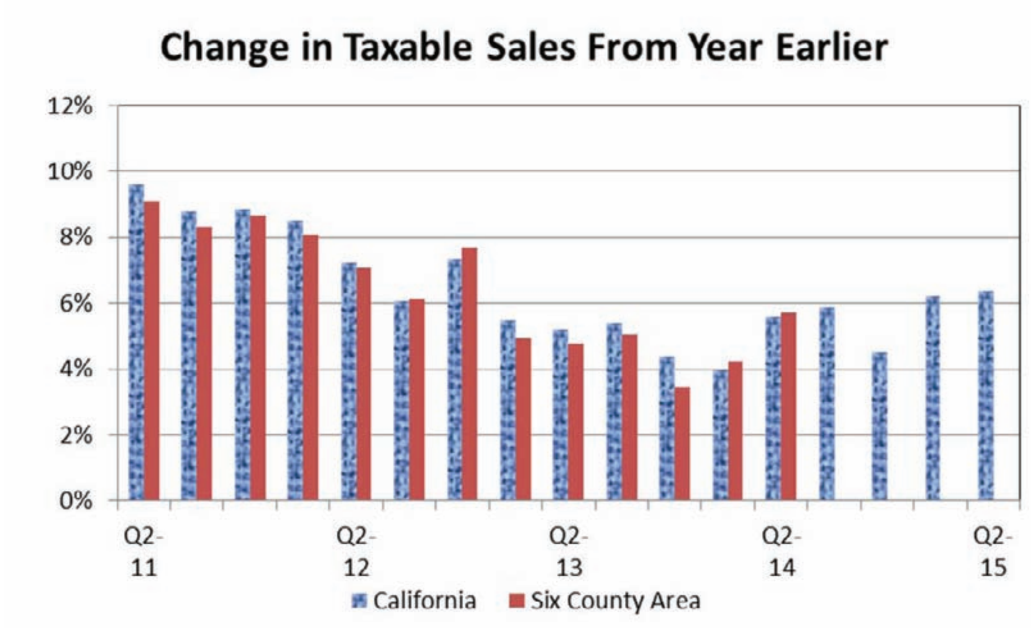
The Six County Area moved from substantial job losses on a monthly basis to a period of stability in job levels and finally accelerating job growth over the past 4 years. (See the figure below.) The Six County Area is outpacing the nation in job growth since the beginning of 2013 although unemployment rates have not fully recovered to the pre-recession levels. By August 2015 job levels were 225,600 above the pre-recession peak level in July 2007.



Source: EDD; data are seasonally adjusted.

Taxable Sales and Income

Taxable sales increased by 9.1% in California in 2011, 7.3% in 2012, 5.1% in 2013 and 5.4% in 2014. Taxable sales rose by 7.2% in the Six County Area in 2012 and 4.6% in 2013, slightly below the state growth rate. The Six County Area accounts for 55% of statewide taxable sales and 2014, and 2015 results are forecast to reflect the pattern of statewide gains. Statewide taxable sales growth has been near 6% in recent quarters and the Six County Area outpaced the state increase in the first 2 quarters of 2014.



Source: California Board of Equalization.

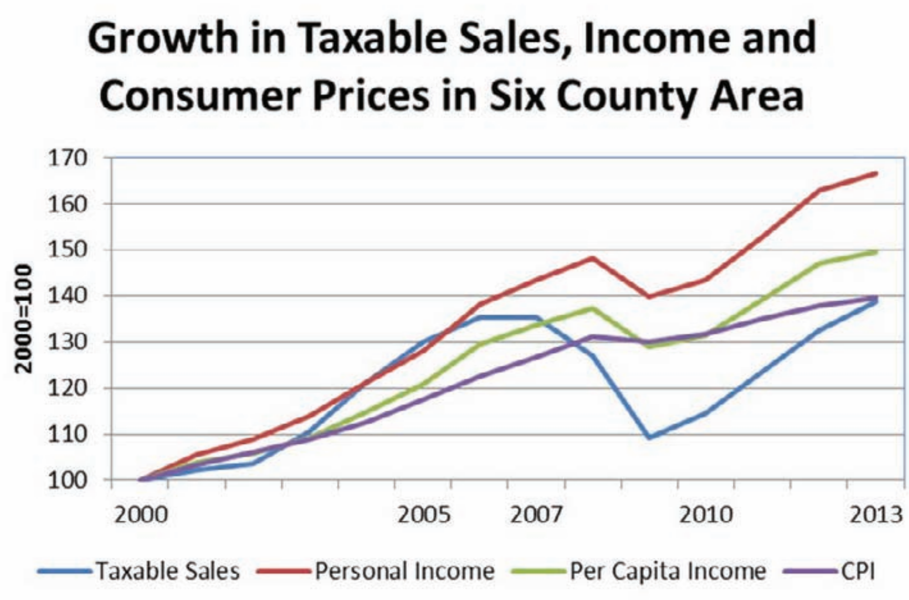
Taxable sales in the Six County Area have rebounded and recovered all the recession losses in 2013, helping local government revenues. The slowdown in consumer price increases means that taxable sales have kept pace with inflation since 2000, although this is not true for the period after 2006. Taxable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

TAXABLE SALES
(Dollars in Billions)

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

Source: Taxable Sales–California Board of Equalization, Consumer Price Index–U.S. Bureau of Labor Statistics.

Total personal income is recovering from the recession decline and reached a record $988 billion in 2013 in the Six County Area. Per capita income surpassed the pre-recession peak in 2013 but the gain in per capita income between 2000 and 2013 was nearly matched by the increase in consumer prices. Taxable sales growth kept pace with total income growth through 2005 but has lagged far behind income and behind consumer price increases for the period since 2000. The growth in income and taxable sales is expected to outpace the increase in consumer prices for 2014 and 2015 and most future years.



Sources: California Board of Equalization, U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics.

Construction Activity

Residential building permit levels in the Six County Area declined sharply after 2004. Between 2004 and 2009, permit levels fell by 84% from 108,322 to 17,932 units. Permit levels have rebounded since 2009 reaching 46,906 in 2014. Permit levels increased by 22% for the first seven months of 2015 with most of the growth in multi-family unit permits. Since 2011 more than half of all new permits have been for multi-family residential buildings with more than 2/3 in 2014. Projected long-term job and population growth will support a much higher level of residential construction than is currently occurring.

RESIDENTIAL BUILDING PERMITS

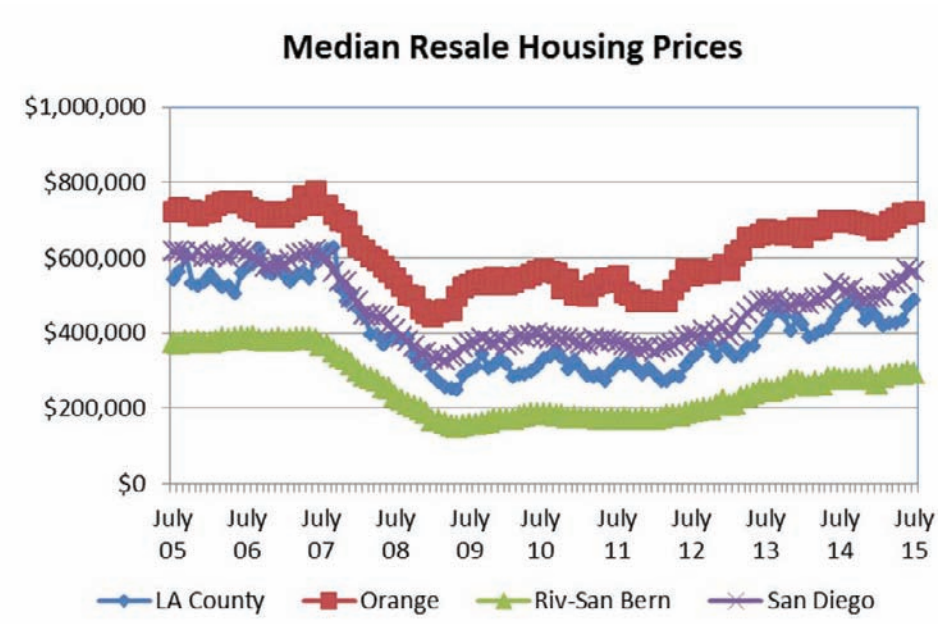
	2004	*2009*	*2013*	*2014*	*Jan-July 2014*	*Jan-July 2015*	*Jan-July % Chg 2014-15*
Los Angeles County	26,395	5,653	16,895	18,728	11,520	13,783	20%
Orange County	9,322	2,200	10,453	10,568	6,034	7,447	23
Riverside County	34,226	4,190	6,220	6,843	3,876	3,831	-1
San Bernardino County	18,470	2,495	3,313	3,230	1,802	2,539	41
San Diego County	17,306	2,990	8,382	6,583	4,084	6,058	48
Ventura County	2,603	404	1,048	954	824	783	-5
Total Six County Area	108,322	17,932	46,311	46,906	28,140	34,441	22

Source: Construction Industry Research Board and California Homebuilding Foundation.

Housing Trends in the Six County Area Economy

The housing market recovery that began in 2012 has continued and strengthened in 2013, 2014 and the first seven months of 2015 in the Six County Area. Housing prices increased, the number of new residential building permits rose and the number of new foreclosure filings declined. Mortgage rates remain near historic lows and the number of homes in the unsold inventory is low by historic standards according to the California Association of Realtors ("CAR"). These signs combined with expected job growth point to a continued strengthening in the housing market in 2015 and beyond.

Median resale housing prices in Six County Area markets were near 2003 levels at the lowest recent levels in March 2009. Median prices fluctuated in a narrow range until the summer of 2012 and then began a rebound that has continued into 2015. In July 2015 median prices throughout the Six County Area were at the top of the recent range with increases of between 49% and 78% since March 2012. CAR reported that the share of distressed properties declined from 37% of total sales in September 2012 to 7% statewide in July 2015. The Case Shiller home price index, which eliminates the effect of changes in the mix of housing, increased for the Los Angeles and San Diego regional markets over the three years ending in June 2015 gaining 42% in the Los Angeles market area and 38% in the San Diego market area during this period.



Source: California Association of Realtors.

The decline in housing prices and the drop in mortgage rates initially had the effect of raising the level of housing affordability throughout the Six County Area. (See figure below.) Housing affordability for first time homebuyers, as measured by CAR, increased throughout the Six County Area between 2008 and 2011. Affordability declined slightly in 2012 and continued to decline in early 2013 as prices rose. Affordability in the Six County Area stabilized for a while, then declined again in the second quarter of 2015 as prices rose but remains well above the low levels during the housing bubble.

The long-term demand for housing based on job and population growth remains well above current levels according to projections from SCAG, SANDAG and CCSCE.

Source: California Association of Realtors.

Nonresidential Construction

Nonresidential construction permit levels reached a record $12.3 billion in 2014. For the first seven months of 2015 permit levels are down 5% from the 2014 record year.

Nonresidential construction throughout the Six County Area peaked at $11.3 billion in 2007. Between 2007 and 2009, nonresidential construction declined by more than 50% to a 2009 level of $5.1 billion. The Six County Area is experiencing a rebound in nonresidential permit levels since 2009. The increase in residential and nonresidential building is supporting job growth in construction and related industries.

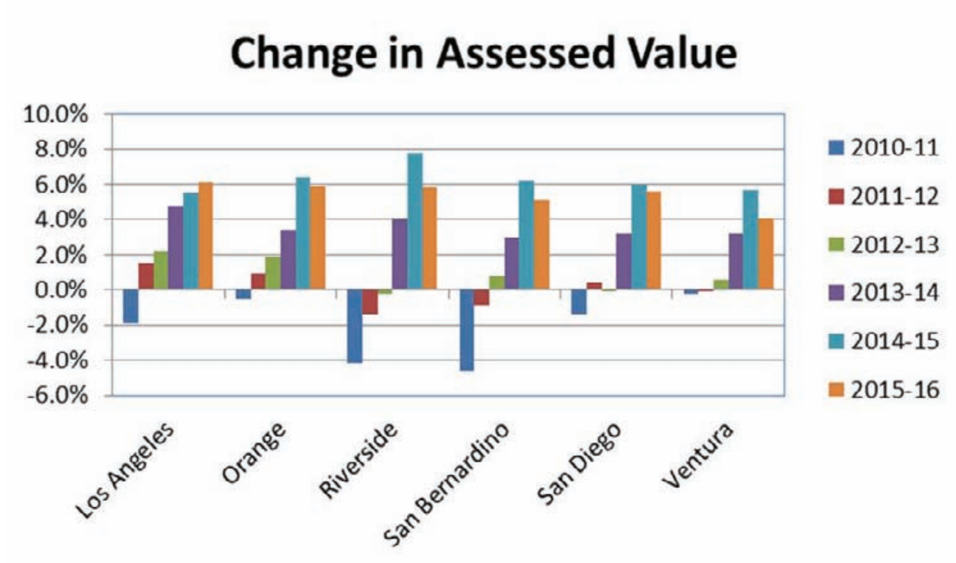
TOTAL NONRESIDENTIAL CONSTRUCTION PERMIT VALUATION
(Dollars in Billions)

	2007	*2009*	*2013*	*2014*	*Jan-July 2014*	*Jan-July 2015*	*Jan-July % Chg 2014-15*
Los Angeles County	$4.7	$2.7	$4.3	$6.6	$3.8	$3.4	-11%
Orange County	2.0	1.0	1.6	2.0	1.2	1.1	-8
Riverside County	1.5	0.4	0.8	0.8	0.5	0.5	0
San Bernardino County	1.4	0.3	0.7	0.9	0.4	0.6	50
San Diego County	1.4	0.6	1.4	1.9	1.2	1.1	-8
Ventura County	0.3	0.2	0.1	0.1	0.1	0.1	11
Total Six County Area	$11.3	$5.1	$8.9	$12.3	$7.2	$6.8	-5

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 another source of fiscal pressure on local communities throughout the Six County Area. Assessed values increased again for the 2015-16 fiscal year with gains ranging from 4.1% in Ventura County to 6.1% in Los Angeles County. For three years in a row assessed valuation growth has outpaced inflation in each county in the Six County Area.



Source: County Assessors' Offices.

International Trade

The recession led to a decline in the dollar volume and physical volume of international trade in the Six County Area in 2008 and 2009. Container volumes have recovered since 2009 and neared pre-recession levels in 2014. Container volumes in 2015 have been volatile as a result of strikes with a strong recovery in recent months after sharp declines in January and February and are up 1% through August.

Source: Ports of Los Angeles and Long Beach

Over the longer term, international trade has been a leading growth sector in the Six County Area. Container volume rose 60% between 2000 and 2014 despite the large drop in 2008 and 2009. Trade volume increased by 0.5% in 2014 to $416.6 billion leading all U.S. ports. This growth supports jobs and economic activity in the transportation, wholesale trade and warehousing industries as the Six County Area is a gateway for U.S. trade with Pacific Rim countries. For example, the Riverside-San Bernardino metro area, where many imports are stored and shipped from, saw an increase in warehousing jobs from 18,300 to 36,500 between April 2010 and July 2015 along with 19,900 jobs added in trucking and wholesale trade with all three sectors exceeding pre-recession job levels.

The Los Angeles and Long Beach ports are the nation's leading port complex in terms of trade volume. The area's ports handle 50% of the nation's trade with China. China is by far the largest trading partner for these ports with $176.1 billion in two-way trade in 2014, up 1.8% from 2013, with the dominant portion related to imports from China. The next largest trading partner is Japan ($40.4 billion) followed by South Korea, Taiwan and Vietnam. Mexico is by far the largest trading partner in the San Diego Customs District.

Long-term growth in the United States and in our trading partners will boost international trade levels of activity in the coming years as will new trade agreements. The Six County Area's largest trading partners include some of the world's fastest growing economies such as China, South Korea and Mexico. The Los Angeles County Economic Development Corporation ("LAEDC") forecasts that trade volume will be flat in 2015 and increase by 5.5% in 2016 in a report issued before the recent turmoil in the Chinese economy and stock market.

The LAEDC International Trade report in May 2015 cited progress on a number of infrastructure projects to expand port capacity with more than $6 billion being invested in current upgrades at ports, airports and supporting land transportation infrastructure. The report also cited long-term challenges including competition from the Panama Canal expansion and from other east and west-coast ports.

Income and Wages

Counties in the Six County Area have income and wage levels that range from below the national average to above the national average. Orange and Ventura counties have the highest household income levels within the Six County Area. Los Angeles and Orange counties have the highest wage levels, well above the national average. San Diego County income and wage levels are also above the national average. Riverside and San Bernardino counties have per capita income and wage levels that are below the national average. Median household income is above the national average in each of the counties in the Six County Area except San Bernardino County.

Per capita income and median household income measures are affected by demographic trends. Per capita income measures in the region are pushed downward by the above average percent of children in the Six County Area population compared to the national average while median household income measures are pushed upward by the above average number of wage earners per household in the Six County Area. Income and wage trends in the Six County Area have been comparable to national trends since 2000.

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

The table below shows median household income and wage levels for each of the counties in the Six County Area, as well as for California and the United States, in 2014. The latest per capita income data is for 2013.

INCOME AND WAGES

	Per Capita Income (2013)	*Median Household Income (2014)*	*Average Wage (2014)*
Los Angeles County	$46,530	$55,746	$56,657
Orange County	54,519	76,306	56,771
Riverside County	33,278	57,006	40,363
San Bernardino County	32,747	52,041	42,043
San Diego County	51,384	66,192	56,561
Ventura County	50,507	75,449	51,886
California	48,434	61,933	59,042
United States	44,765	53,657	51,364

Source: Per Capita Income–U.S. Department of Commerce and CCSCE; Median Household Income–U.S. Census Bureau (American Community Survey); Average Wage–U.S. Bureau of Labor Statistics.

Population

Population growth in California and the Six County Area has been slowing since 2000 compared with previous decades. Population growth averaged 174,100 per year between 2000 and 2010 compared to 219,300 between 1990 and 2000. The Six County Area added nearly 1.2 million residents between 2000 and 2005 but only an additional 588,000 residents in the next five years. Population growth slowed after 2005 as high housing prices and large job losses contributed to larger levels of out-migration to other areas of California and other states.

Population growth continued at a historically slow pace between 2010 and 2014 according to the DOF estimates, averaging 161,000 per year. The Six County Area had 21.6 million residents in 2014, approximately 56% of the State's population.

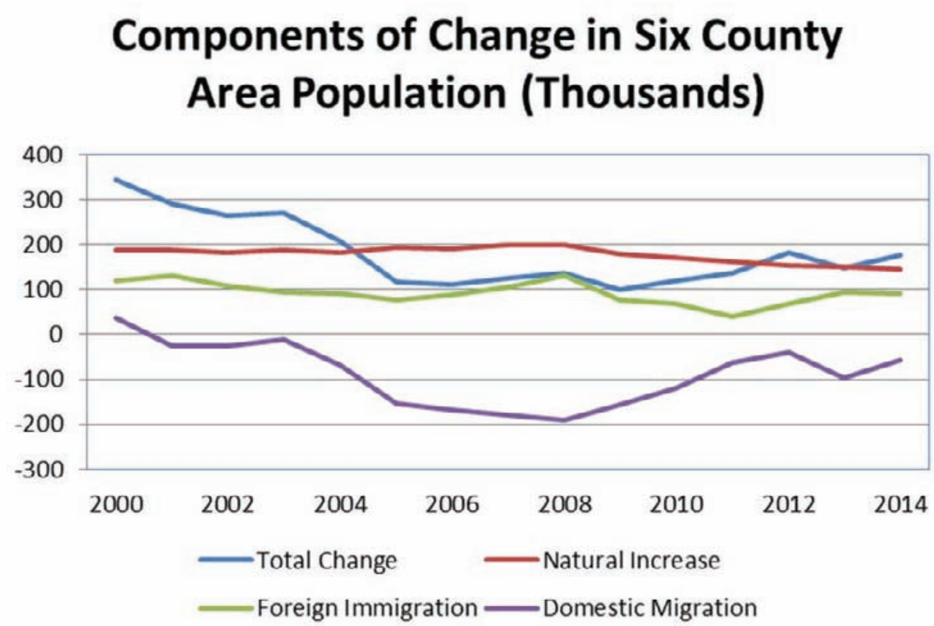
SIX COUNTY AREA POPULATION
(In Thousands)

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

Source: California Department of Finance as of July 1.

Six County Area population growth is determined by three major components—natural increase, which is the number of births minus the number of deaths, net foreign immigration, which is the number of people moving to the region from abroad minus the number moving abroad and net domestic migration, which is the number of people moving from other regions of the state and nation minus the number moving out to these areas. Natural increase was the largest component of population growth from 2000 through 2014 averaging near 182,000 per year. Declining birth rates have reduced natural increase to near 161,000 per year since 2010.

Net foreign immigration has averaged 92,000 per year since 2000 while net domestic migration has been negative since 2000 averaging -88,000 per year. Foreign immigration declined during the recession but rebounded in 2012, 2013 and 2014. Net out migration is still negative but at lower levels than during the recession.



Source: California Department of Finance as of July 1.

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

SIX COUNTY AREA POPULATION
(In Thousands)

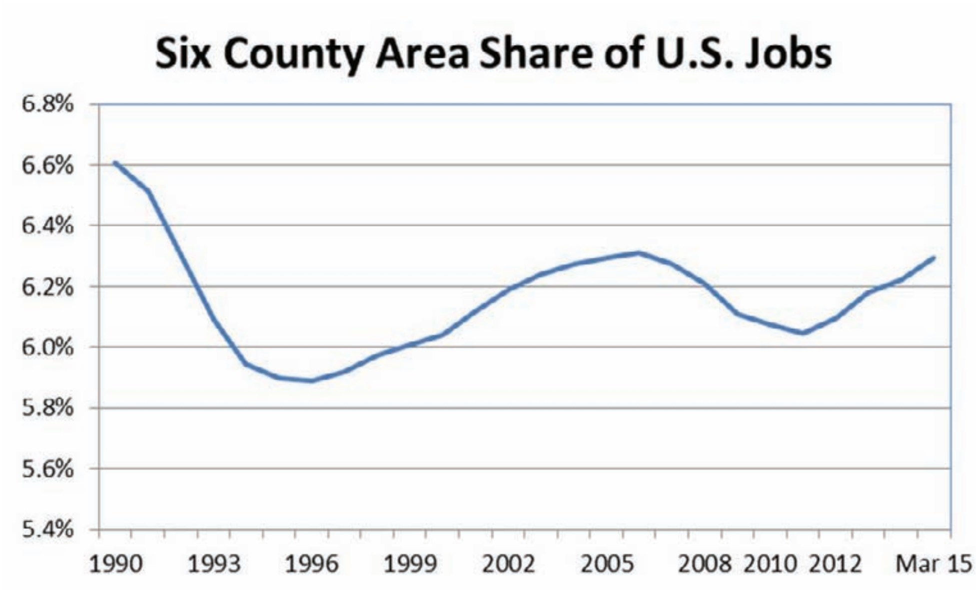
	2012	*2013*	*2014*	*2015*
Total	21,207.3	21,393.2	21,568.2	21,772.5
Gain from Prior Year	134.7	185.9	175.1	204.3
Gain from Prior Year	0.6%	0.9%	0.8%	0.9%

Sources: California Department of Finance as of January 1.

Population projections for 2035 were adopted by SCAG in April 2012 and by SANDAG in October 2011 as part of their planning process to update regional transportation and land use plans. These projections show expected population growth of approximately 4.8 million for the Six County Area, an increase of 23% between 2010 and 2035. The SANDAG regional growth forecast did not incorporate the 2010 Census Bureau population estimates.

Economic Structure of the Six County Area and Long-Term Prospects

The Six County Area has now recovered all of the losses in the area's share of national jobs that occurred during the recession after 2007. In March 2015 the Six County Area accounted for 6.3% of the nation's non-farm wage and salary jobs, the highest share since 1991. The pattern of larger percentage job losses compared to the nation during a recession mirrors the experience of the early 1990s when aerospace jobs declined sharply and the Six County Area share of U.S. non-farm wage and salary jobs fell from 6.6% to a low of 5.9%. As in the economic growth period after 1994, the Six County Area's share of national jobs has grown steadily during the current expansion period.



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

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

The next largest sectors in 2014 were Professional and Business Services and Government followed by Leisure and Hospitality, Retail Trade and Manufacturing. Two sectors accounted for most of the job growth since 2000: Educational and Health Services and Leisure and Hospitality. Six County Area job levels in 2014 were nearly identical to 2007 levels despite large losses in Construction and Manufacturing. Between 2010 and 2014 the Six County Area added more than 830,000 jobs.

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

SIX COUNTY AREA
EMPLOYMENT BY MAJOR SECTOR
(In Thousands)

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

Source: EDD.

Long-term job growth is driven by the Six County Area's economic base—those sectors that sell most of their goods and services in national and world markets outside of the Six County Area. Recent projections by CCSCE, SCAG and SANDAG report that the Six County Area will see job growth that slightly exceeds the national average during the next 10 to 30 years, led by gains in Professional and Business Services, Wholesale Trade, Information and the tourism component of Leisure and Hospitality.

The Six County Area economy has an economic base that is diversified and well positioned to participate in U.S. and world economic growth over the next ten years. Job levels are expected to grow in the high-wage and fast-growing professional, scientific, technical and information services sectors, which include architecture, design, computer, research and development, advertising, legal, accounting, and Internet-related and management services. Other fast-growing sectors over the next ten years include entertainment and tourism industries and health care.

The Six County Area has an above-average share of four additional fast-growing sectors—Wholesale Trade and Transportation, tied to the area's projected growth in foreign trade; Information, which includes motion pictures; and the tourism component of Leisure and Hospitality, tied to growth in disposable income in the U.S. and worldwide.

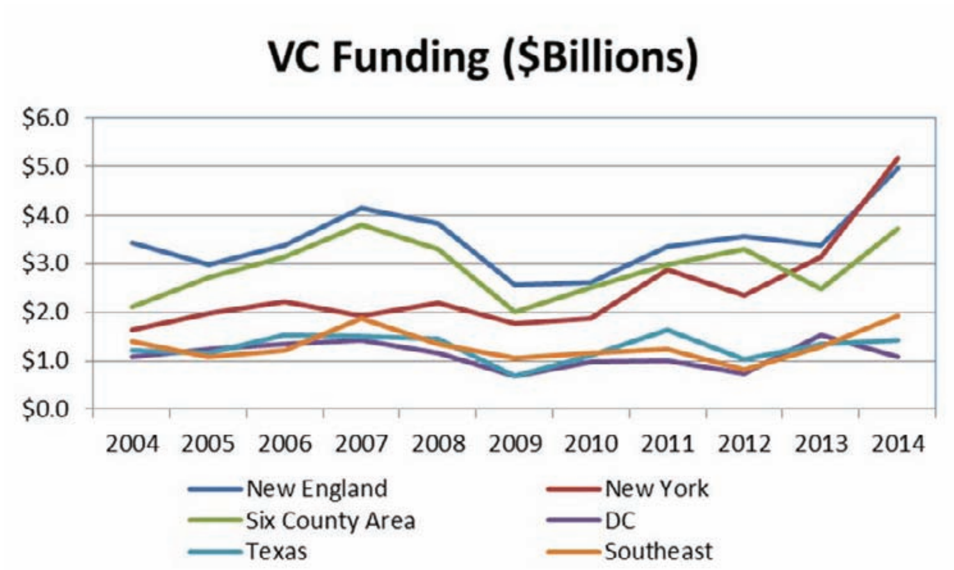
The diversity of the Six County Area economy has led to GDP growth since 2001 that matches the national average despite the fact that the area had below average growth during the recession. Average GDP growth in nominal dollars (see the table on the following page) was 3.8% per year compared to 3.8% for the nation and 4.0% for the state between 2001 and 2014.

SIX COUNTY AREA GDP
(Dollars in Billions)

Metro Area	*2001*	*2007*	*2013*	*2014*	*Ave Annual Growth 2013-14*	*2001-14*
LA-Orange	$ 544.1	$ 761.7	$ 833.8	$ 866.7	4.0%	3.6%
Ventura	25.9	38.6	45.9	46.9	2.2	4.7
Riv.-San Bern	79.3	119.3	127.7	134.0	5.0	4.1
San Diego	121.9	175.7	200.2	206.8	3.3	4.2
Six County Area	$ 771.2	$ 1,095.3	$ 1,207.6	$ 1,254.4	3.9%	3.8%
United States	$ 10,621.8	$ 14,477.6	$ 16,663.2	$ 17,348.1	4.1%	3.8%

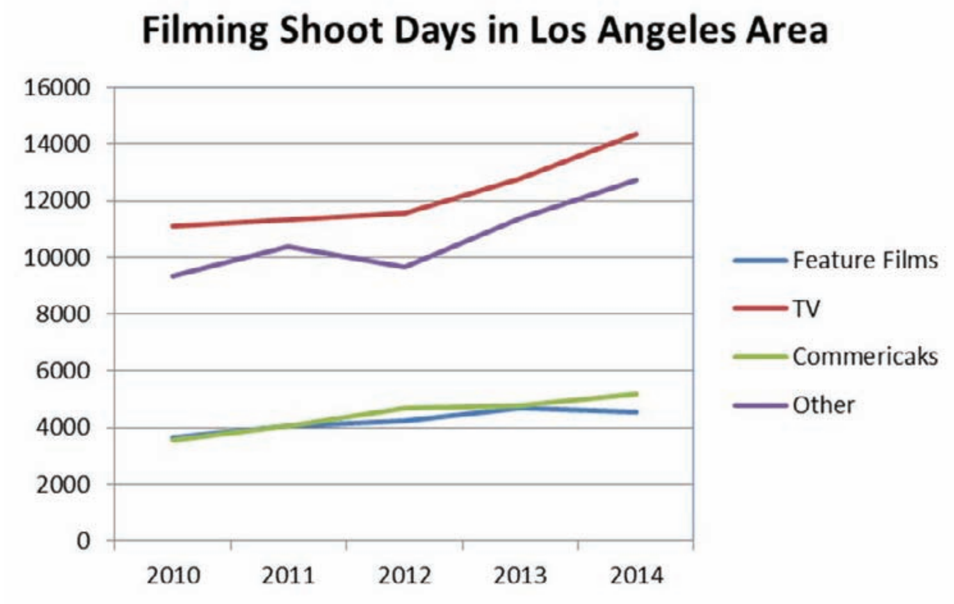
Source: U.S. Department of Commerce; 2014 estimates are preliminary.

The Bay Area is by far the largest recipient of new venture capital funding with $24.6 billion in 2014 funding. The Six County Area has been one of the top three VC markets behind Silicon Valley for the past decade and outpacing Texas, the Southeast and DC areas in total funding (see the figure below). In 2014 the Six County Area accounted for $3.7 billion in funding and received an additional $3.5 billion in funding in the first half of 2015, nearly matching the 2014 total funding. In the first half of 2015 the Six County Area received 11.2% of national funding up from 7.4% for all of 2014.



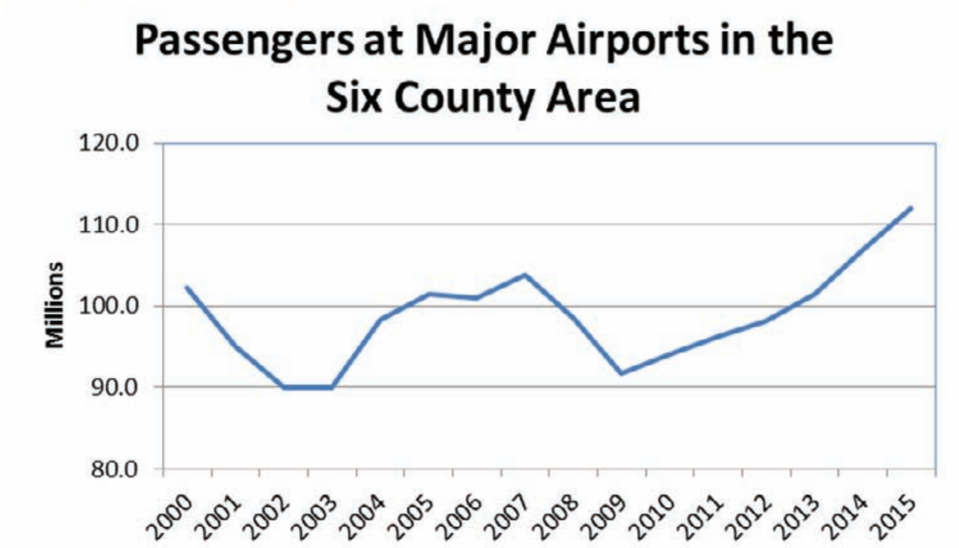
Source: PWC, Thomson Reuters, National Venture Capital Association.

The motion picture and tourism sectors are two major components of the Six County Area economic base. Film LA reports an increase in the number of filming shoot days since 2010. (See the chart on the following page). However, the mix of production days changed over time with long term losses in the production of major feature films and TV drama series offset by larger gains in commercials, other kinds of TV filming and web-based and reality shows, which according to Film LA have lower dollar values per production day of activity. In September 2014 California approved an increase in the state film tax credit to $330 million per year from $100 million starting in 2015. Production days were down 2.4% in the first half of 2015 compared to the year earlier period.



Source: Film LA

California and the Six County Area are experiencing growth in both domestic and foreign visitors. Hotel rates and occupancy are increasing in the Six County and the same is true for employment in the hotel and amusement park sectors. In 2014 Los Angeles County set tourism records in visitors (44.2 million), hotel occupancy rates (78.9%) and average daily rate ($147.302) according to data from the Los Angeles Tourism and Convention Board. Foreign travel to the region is outpacing domestic travel with large gains in visitors from China of +20.4% in 2014 to 686,000 visitors following a gain of 21.3% in 2013. In 2014 passenger travel at Los Angeles International Airport was up 6.0% to 70.7 million trips to set an all-time record. Air passenger travel at the major airports in the Six County Area is on pace to reach record levels in 2015.



Source: Airport websites—Los Angeles International, Bob Hope, John Wayne, Ontario and San Diego; 2015 estimate based on growth rate for the first seven months of 2015 compared to the year earlier period.

The positives for long-term economic growth include the strength of the region as a center for knowledge-based and creative activities and international trade, tourism and investment with the Pacific Rim. For example, the Six County Area does not have a large number of automotive industry production jobs but nearly all large worldwide auto companies have a major design studio in the Six County Area.

APPENDIX F

FORM OF OPINION OF CO-BOND COUNSEL

Upon issuance of the 2015A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, and Curls Bartling P.C., Co-Bond Counsel, propose to render a final approving opinion in substantially the following form:

December 17, 2015

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

Re: $208,255,000 The Metropolitan Water District of Southern California Water Revenue Bonds, 2015 Authorization Series A

Members of the Board of Directors:

We have acted as Co-Bond Counsel to The Metropolitan Water District of Southern California ("Metropolitan") in connection with the issuance of $208,255,000 aggregate principal amount of Water Revenue Bonds, 2015 Authorization Series A (the "Bonds"). The Bonds have been issued by Metropolitan pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), in accordance with Resolution 8329 adopted by the Board of Directors of Metropolitan (the "Board") on July 9, 1991, as amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 9197 adopted by the Board on November 10, 2015 (the "Twenty-First Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The voters in Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act.

The Bonds are limited obligations of Metropolitan payable solely from Net Operating Revenues (as such term is defined in the Resolutions), and from certain funds and accounts established under the Resolutions. The Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and as described in the Bond Purchase Contract relating to the Bonds, dated December 9, 2015 (the "Bond Purchase Contract"), by and between Metropolitan and RBC Capital Markets, LLC, as representative of itself and the underwriters listed therein.

In connection with our role as Co-Bond Counsel, we have examined the record of proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon these proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the "State") now in force, and the Twenty-First Supplemental Resolution has been duly adopted by Metropolitan, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.

2. The obligation of Metropolitan to make the payments of principal of and interest on the Bonds from Net Operating Revenues is an enforceable obligation of Metropolitan and does not constitute an indebtedness of Metropolitan in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Co-Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by Metropolitan and are subject to the condition that Metropolitan comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Metropolitan has covenanted to comply with all such requirements.

On the date of delivery of the Bonds, Metropolitan will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds, Metropolitan covenants that Metropolitan will comply with the provisions and procedures set forth therein and that Metropolitan will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinions set forth herein, we have relied upon and assumed: (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds with respect to matters affecting the status of interest paid on the Bonds; and (b) compliance by Metropolitan with the procedures and covenants set forth in such documents as to such tax matters.

The Resolutions and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

We call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

We further call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

Respectfully submitted,

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APPENDIX G

FORM OF CONTINUING DISCLOSURE UNDERTAKING

Upon issuance of the 2015A Bonds, Metropolitan proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Undertaking (the "Undertaking") is dated as of December 1, 2015 by The Metropolitan Water District of Southern California ("Metropolitan") in connection with the issuance of its $208,255,000 aggregate principal amount of Water Revenue Bonds, 2015 Authorization Series A (the "2015A Bonds"). The 2015A Bonds are being issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including as amended and supplemented by Article 11 of Chapter 3, and Chapter 6 of Part 1 of Division 2 of Title 5 of the California Government Code, as amended, and Resolution 8329, adopted by the Board of Directors of Metropolitan (the "Board") on July 9, 1991, as amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 9197, adopted by the Board on November 10, 2015 (the "Twenty-First Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). Capitalized terms used in this Undertaking which are not otherwise defined in the Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

ARTICLE I
Definitions

Section 1.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively: (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) the table under the caption "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO—Debt Service Requirements" in the forepart of the Official Statement; (ii) under the caption "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in Appendix A to the Official Statement, the table entitled "Metropolitan's Water Storage Capacity and Water in Storage;" (iii) under the caption "METROPOLITAN REVENUES" in Appendix A to the Official Statement, the tables entitled "Summary of Receipts by Source," "Summary of Water Sold and Water Sales," "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 EXPENDITURES" in Appendix A to the Official Statement, the table entitled "Summary of Expenditures;" outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long term commitments and the information described under the subcaption "—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 entitled "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 expenditures to total costs; (vii) under the caption "POWER SOURCES AND COSTS—General" in Appendix A to the Official Statement, the expenditures for electric power, for so long as such information

shall be deemed to be material by Metropolitan; and (B) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

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

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

(3) "Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California and/or Curls Bartling P.C., Oakland, California or another nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to Metropolitan.

(4) "EMMA System" means the MSRB's Electronic Municipal Market Access system or any successor nationally recognized municipal securities information repositories recognized by the SEC for the purposes referred to in the Rule.

(5) "Event Notice" means written or electronic notice of a Notice Event.

(6) "GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

(7) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

(8) "Notice Event" means any of the following events with respect to the 2015A Bonds:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notice of determinations with respect to the tax status of the 2015A Bonds, or other material events affecting the tax status of any 2015A Bonds;

(vii) modifications to rights of security holders, if material;

(viii) bond calls, if material;

(ix) defeasances;

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

(xi) rating changes;

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

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

(xiv) tender offers; and

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

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

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

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

(12) "State" means State of California.

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

ARTICLE II
The Undertaking

Section 2.1. Purpose. This Undertaking shall constitute a written undertaking for the benefit of the holders of the 2015A Bonds and is being executed and delivered solely to assist the underwriters in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 2015-16, by no later than each January 1 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 date specified in subsection (a) above to the EMMA System.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof, Metropolitan shall provide Audited Financial Statements, when and if available, to the EMMA System.

Section 2.4. Event Notices. If a Notice Event occurs, Metropolitan shall provide or cause to be provided, in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event, an Event Notice to the EMMA System.

Section 2.5. Additional Information. Nothing in this Undertaking shall be deemed to prevent Metropolitan from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Event Notice, in addition to that which is required by this Undertaking. If Metropolitan chooses to include any information in any Annual Financial Information or Event Notice in addition to that which is specifically required by this Undertaking, Metropolitan shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information or Event Notice.

ARTICLE III
Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if Metropolitan provides Annual Financial Information by specific reference to documents: (i) either: (1) provided to the EMMA System; or (2) filed with the SEC; or (ii) if such document is a "final official statement," as defined in paragraph (f)(3) of the Rule, available from the MSRB or the EMMA System.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Event Notices. Each Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the 2015A 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 2015A Bonds.

(b) Metropolitan's obligations under this Undertaking shall terminate upon a legal defeasance pursuant to Section 9.02 of the Master Resolution, prior redemption or payment in full of all of the 2015A 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 2015A Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion; and (ii) 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 2015A Bonds (except to the extent required under clause (iv)(1) below), if all of the following conditions are satisfied: (i) 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, (ii) 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, (iii) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the same effect as set forth in clause (ii) above; (iv) either: (1) 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 2015A Bonds; or (2) the holders of the 2015A Bonds consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Resolutions with consent of holders of 2015A Bonds, pursuant to the Resolutions as in effect on the date of this Undertaking; and (v) 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 2015A Bonds, if all of the following conditions are satisfied: (i) 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; (ii) 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 (iii) Metropolitan shall have delivered copies of such opinion and amendment to the EMMA System.

(c) To the extent that 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 2015A Bonds, except that beneficial owners of 2015A 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 2015A Bonds; or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the holders of 25% in aggregate amount of Outstanding 2015A 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 2015A Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of 2015A Bonds for purposes of this subsection (b).

(c) Any failure by Metropolitan to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Resolutions and shall not result in any acceleration of payment of the 2015A Bonds, and the rights and remedies provided by the Resolutions upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent that this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

By:____________________________________
Gary Breaux
Assistant General Manager/
Chief Financial Officer

APPROVED AS TO FORM:

MARCIA SCULLY, General Counsel

By:________________________________
General Counsel

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA • WATER REVENUE BONDS, 2015 AUTHORIZATION SERIES A

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