

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, and Schiff Hardin LLP, 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 2017A 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 on the 2017A Bonds is exempt from State of California personal income tax. See “TAX MATTERS.”



\$80,000,000
**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**
Water Revenue Bonds
2017 Authorization Series A

Dated, Priced and Due as set forth on the inside cover hereof

The Metropolitan Water District of Southern California (“Metropolitan”) is issuing its \$80,000,000 aggregate principal amount of Water Revenue Bonds, 2017 Authorization Series A (the “2017A Bonds”) for the purpose of providing funds to pay (and to reimburse Metropolitan for) certain costs of acquisition, construction and improvements to the Water System and to pay costs of issuance of the 2017A Bonds. See “FINANCING PLAN” and “ESTIMATED APPLICATION OF PROCEEDS.” *Capitalized terms used on this cover page not otherwise defined will have the meanings set forth herein.*

The 2017A Bonds will be dated their date of delivery and will mature as shown on the inside cover hereof. The 2017A Bonds will initially bear interest in the Daily Mode and will be initially designated as Liquidity Supported Bonds under the Paying Agent Agreement, dated as of March 1, 2017 (the “Paying Agent Agreement”), by and between Metropolitan and The Bank of New York Mellon Trust Company, N.A., as paying agent (the “Paying Agent”), relating to the 2017A Bonds. The 2017A Bonds will be issued as fully registered bonds, in denominations of \$100,000 or any integral multiples of \$5,000 in excess thereof while accruing interest in the Daily Mode. Interest on the 2017A Bonds, while in the Daily Mode, will be payable on the first Business Day of each month, commencing on April 3, 2017. See “DESCRIPTION OF THE 2017A BONDS.”

Metropolitan may change the Interest Mode of the 2017A Bonds; provided, however, that all of the 2017A Bonds must accrue interest in the same Interest Mode or at a Fixed Interest Rate. **This Official Statement describes the terms of the 2017A Bonds only while they bear interest in the Daily Mode and while they are Liquidity Supported Bonds. Prospective investors in the 2017A Bonds must not rely on this Official Statement while such 2017A Bonds bear interest in any other Interest Mode or if they become Self-Liquidity Bonds.**

The 2017A Bonds will be subject to optional and mandatory sinking fund redemption prior to maturity. The 2017A Bonds are also subject to optional and mandatory tender for purchase. See “DESCRIPTION OF THE 2017A BONDS – Redemption of 2017A Bonds” and “– Tender and Purchase of 2017A Bonds.”

While the 2017A Bonds are Liquidity Supported Bonds, payment of the purchase price of tendered 2017A Bonds will be payable from the proceeds of remarketing of the 2017A Bonds and, to the extent remarketing proceeds are insufficient, initially from amounts made available under a Standby Bond Purchase Agreement, dated as of March 1, 2017 (the “Liquidity Facility”), by and between Metropolitan and Citibank, N.A. (the “Liquidity Provider”), subject to the terms and conditions set forth therein, and thereafter from such Alternate Liquidity Facility as may be obtained by Metropolitan to provide for payment of the purchase price of such 2017A Bonds. The initial Liquidity Facility terminates on March 27, 2020, unless extended or terminated sooner in accordance with its terms. See “THE LIQUIDITY FACILITY.”

The obligation of the Liquidity Provider to purchase 2017A Bonds tendered by the Owners thereof or subject to mandatory purchase may be terminated or suspended without notice. In such event, sufficient funds may not be available to purchase the 2017A Bonds tendered by the Owners thereof or subject to mandatory purchase. The Liquidity Facility will not guarantee the payment of principal of or interest on any of the 2017A Bonds in the event of non-payment of such interest or principal by Metropolitan. See “THE LIQUIDITY FACILITY.”

The 2017A 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 parity with Metropolitan’s outstanding Parity Bonds and other Parity Obligations as described herein. As of February 1, 2017, Metropolitan had outstanding \$4.06 billion aggregate principal amount of Parity Bonds payable from Net Operating Revenues. The 2017A 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 2017A Bonds or the interest thereon. The obligation to pay the principal of and interest on the 2017A 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 2017A Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, and Schiff Hardin LLP, Co-Bond Counsel. Certain legal matters will be passed upon for Metropolitan by its General Counsel, for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, and for the Liquidity Provider by its counsel, Kutak Rock LLP. Norton Rose Fulbright US LLP is acting as Disclosure Counsel to Metropolitan in connection with the issuance of the 2017A Bonds. Public Resources Advisory Group is serving as Municipal Advisor to Metropolitan in connection with the issuance of the 2017A Bonds. Metropolitan anticipates that the 2017A Bonds will be available for delivery through the facilities of The Depository Trust Company on or about March 1, 2017.

\$80,000,000

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Water Revenue Bonds
2017 Authorization Series A**

Dated:	Date of Delivery
Due:	July 1, 2047
CUSIP[†]:	59266T MV0
Remarketing Agent:	Citigroup Global Markets Inc.
Liquidity Provider:	Citibank, N.A.
Price:	100%

[†] CUSIP[®] is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with Metropolitan, its Municipal Advisor or the Underwriter and are included solely for the convenience of the holders of the 2017A Bonds. None of Metropolitan, its Municipal Advisor or the Underwriter is responsible for the selection or use of these CUSIP numbers and no representation is made as to their correctness on the 2017A Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the 2017A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the 2017A Bonds.

**MAJOR WATER CONVEYANCE FACILITIES
TO SOUTHERN CALIFORNIA**



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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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This Official Statement does not constitute an offer to sell the 2017A 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 2017A 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 2017A Bonds, and if given or made, investors must not rely on such information or representations.

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

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

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

In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the 2017A Bonds at a level above that which might otherwise prevail on the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

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

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (“EMMA”) website. Metropolitan maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2017A Bonds.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement and should not be considered to be a complete statement of the facts material to making an investment decision. All terms used in this Summary Statement and not otherwise defined have the meanings given such terms elsewhere in this Official Statement, in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENT” 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.

The Metropolitan Water District of Southern California

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

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

For general information regarding Metropolitan, including information regarding Metropolitan’s operations and finances, see APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA” and APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED).” For selected demographic and economic information on Metropolitan’s service area, see APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

Economy of Metropolitan’s Service Area

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

Authorization for the 2017A Bonds

Metropolitan is issuing its \$80,000,000 aggregate principal amount of Water Revenue Bonds, 2017 Authorization Series A (the “2017A Bonds”) pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Chapter 3 (section 53400 *et seq.*) and Chapter 6 (Section 54300 *et seq.*) of Part 1 of Division 2 of Title 5 (the “Act”), 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 9217 adopted by the Board on January 10, 2017 (the “Twenty-Second Supplemental Resolution” and, together with the Master Resolution, the “Resolutions”). The 2017A Bonds are further described in the Paying Agent Agreement, dated as of March 1, 2017 (the “Paying Agent Agreement”), by and between Metropolitan and The Bank of New York Mellon Trust Company, N.A. (the “Paying Agent”), relating to the 2017A Bonds. The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Revenue bonds issued by Metropolitan pursuant to the Resolutions are referred to in this Official Statement as the “Bonds.” The 2017A Bonds when issued will be payable as to principal thereof and interest thereon on a parity with Metropolitan’s outstanding Bonds and any additional Bonds hereafter issued by Metropolitan payable on a parity therewith (“Parity Bonds”) and with other outstanding and future obligations of Metropolitan payable on a parity with the Bonds (“Parity Obligations”).

On October 13, 2015, Metropolitan’s Board adopted Ordinance 149 (the “2015 Revenue Bond Ordinance”) determining that the interests of Metropolitan required the use of up to an aggregate principal amount of \$500,000,000 of revenue bonds to fund a portion of its capital expenditures. In December 2015, Metropolitan issued \$208,255,000 principal amount of its Water Revenue Bonds, 2015 Authorization Series A under the 2015 Revenue Bond Ordinance. In December 2016, Metropolitan issued its \$175,000,000 Subordinate Water Revenue Bonds, 2016 Authorization Series A under the 2015 Revenue Bond Ordinance. On January 10, 2017, the Board adopted the Twenty-Second Supplemental Resolution authorizing the issuance of the 2017A Bonds under the 2015 Revenue Bond Ordinance to fund a portion of Metropolitan’s capital expenditures through fiscal year 2017-18. The issuance of the balance of the \$500,000,000 aggregate principal amount of revenue bonds under the 2015 Revenue Bond Ordinance would be subject to board approval in future supplemental bond authorizations. The Board may also from time to time in the future adopt other ordinances authorizing the issuance of additional revenue bonds, including Parity Bonds and/or subordinate water revenue bonds.

Purpose of the 2017A Bonds

Metropolitan is issuing the 2017A Bonds for the purpose of providing funds to pay (and to reimburse Metropolitan for) certain costs of acquisition, construction and improvements to the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water (the “Water System”) and to pay the costs of issuing the 2017A Bonds. See “FINANCING PLAN” and “ESTIMATED APPLICATION OF PROCEEDS.”

General Terms of the 2017A Bonds

The 2017A Bonds will be dated their date of delivery and will mature on July 1, 2047. The 2017A Bonds will initially bear interest in the Daily Mode and will be initially designated as Liquidity Supported Bonds under the Paying Agent Agreement. The 2017A Bonds will be issued as fully registered bonds, in denominations of \$100,000 or any integral multiples of \$5,000 in excess thereof while accruing interest in the Daily Mode. Interest on the 2017A Bonds, while in the Daily Mode, will be payable on the first Business Day of each month, commencing on April 3, 2017. See “DESCRIPTION OF THE 2017A BONDS.”

Metropolitan may change the Interest Mode of the 2017A Bonds; provided, however, that all of the 2017A Bonds must accrue interest in the same Interest Mode or at a Fixed Interest Rate. **This Official Statement describes the terms of the 2017A Bonds only while they bear interest in the Daily Mode and while they are Liquidity Supported Bonds. Prospective investors in the 2017A Bonds must not rely on this Official Statement while such 2017A Bonds bear interest in any other Interest Mode or if they become Self-Liquidity Bonds.**

Book-Entry Only

Metropolitan will issue the 2017A Bonds as fully registered bonds and will register the 2017A 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 2017A Bonds. Upon receipt of payments of principal or interest, DTC is obligated to remit those payments to DTC’s Direct Participants (as defined in APPENDIX D – “BOOK-ENTRY ONLY SYSTEM”) for subsequent disbursement to each actual purchaser of an ownership interest in the 2017A Bonds. See APPENDIX D – “BOOK-ENTRY ONLY SYSTEM.”

Redemption, Tender and Purchase of 2017A Bonds

The 2017A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. See “DESCRIPTION OF THE 2017A BONDS – Redemption of 2017A Bonds.” In addition, the Owners of 2017A Bonds bearing interest at a Daily Rate may elect to have their respective 2017A Bonds purchased on any Business Day, upon notice of tender to the Paying Agent and the Remarketing Agent on such Business Day, at a price equal to the principal amount thereof plus accrued interest, if any, provided that a Suspension Event or Immediate Termination Event (as defined in the Liquidity Facility) shall not have occurred under such Liquidity Facility. See “DESCRIPTION OF THE 2017A BONDS – Tender and Purchase of 2017A Bonds – Optional Tender for Purchase” and “– Special Provisions for Liquidity Supported Bonds.”

The 2017A Bonds are subject to mandatory tender for purchase at a purchase price equal to the principal amount thereof plus accrued interest, if any, (i) in connection with the termination, expiration or replacement of the Liquidity Facility or a change in the designation of the 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, subject to conditions set forth in the Paying Agent Agreement, (ii) on the effective date of a change in the Interest Mode of the 2017A Bonds (or, in connection with a change in Interest Mode to a Long Mode, on the day which would have been the effective date of a new Interest Mode had there not been a failure to deliver certain items pursuant to the Paying Agent Agreement which resulted in the Interest Mode of the 2017A Bonds not being changed), (iii) upon a conversion of the 2017A Bonds to a Fixed Interest Rate, and (iv) at Metropolitan’s election. See “DESCRIPTION OF THE 2017A BONDS – Tender and Purchase of 2017A Bonds.” See also “– The Liquidity Facility for the 2017A Bonds” and “THE LIQUIDITY FACILITY” for a description of the extent of the Liquidity Provider’s obligations to purchase the 2017A Bonds tendered but not remarketed. So long as the 2017A Bonds are Liquidity Supported Bonds, Metropolitan will have no obligation to purchase tendered 2017A Bonds from any of its assets other than amounts received from proceeds of remarketings and moneys furnished by or at the direction of the Paying Agent and received from the Liquidity Provider pursuant to the Liquidity Facility then in effect.

Security for the 2017A Bonds

The 2017A Bonds are special limited obligations of Metropolitan and will be payable as to principal, redemption premium, if any, and interest thereon solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operation and Maintenance Expenditures as described in this Official Statement. The 2017A Bonds when issued will be payable on a parity with Metropolitan’s other Parity Bonds. As of February 1, 2017, \$4.06 billion of Parity Bonds were outstanding. Metropolitan will also pay the principal of and redemption premium, if any, and interest on the 2017A Bonds on a parity with its Parity Obligations at any time outstanding. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS.”

The 2017A 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 2017A 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 2017A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except Net Operating Revenues.

Metropolitan has established reserve funds for some of the Series of outstanding Bonds. Metropolitan will not fund a reserve fund for the 2017A 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 2017A Bonds or the Purchase Price thereof.

Rate Covenant

Metropolitan covenants under the Master Resolution that it will prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in the estimates, will provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority: (1) Operation and Maintenance Expenditures; (2) the interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds and Parity Obligations as they become due and payable; (3) all other payments required for compliance with the Master Resolution or any Supplemental Resolution; and (4) all other payments required to meet any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from the Net Operating Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS – Rate Covenant.”

Additional Indebtedness

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2017A Bonds, the Parity Bonds or the Parity Obligations.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on a parity with the 2017A 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 has and may also incur obligations junior and subordinate to the 2017A Bonds or any Parity Bonds or Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS – Additional Indebtedness” and “– Subordinate Obligations.”

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on parity with Metropolitan’s obligation to pay principal of and interest on the 2017A Bonds and the Parity Bonds. See Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

The Liquidity Facility for the 2017A Bonds

For so long as the 2017A Bonds bear interest at a Daily Rate and the Liquidity Facility remains in effect, the purchase price of a 2017A Bond will be payable from the proceeds of remarketing of such 2017A Bond. If remarketing proceeds are insufficient, the purchase price will be payable initially from amounts available under the Standby Bond Purchase Agreement, dated as of March 1, 2017 (the “Liquidity Facility”), by and between Metropolitan and Citibank, N.A. (the “Liquidity Provider”), subject to the terms and conditions set forth therein, and thereafter from such Alternate Liquidity Facility as may be obtained by Metropolitan to provide for payment of the purchase price of such 2017A Bonds. The initial Liquidity Facility terminates on March 27, 2020, unless extended or terminated sooner in accordance with its terms. See “THE LIQUIDITY FACILITY.”

The obligation of the Liquidity Provider to purchase tendered but not remarketed 2017A Bonds is subject to suspension or termination upon the occurrence of certain events under the Liquidity Facility. Suspension or termination may take place without notice to the Owners of the 2017A Bonds. See “THE LIQUIDITY FACILITY.” Under the Paying Agent Agreement, an Alternate Liquidity Facility or Facilities may be obtained by Metropolitan to provide for payment of the purchase price of the 2017A Bonds. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENT – THE PAYING AGENT AGREEMENT – Liquidity Facilities and Alternate Liquidity Facilities.”

The obligation of the Liquidity Provider to purchase 2017A Bonds tendered by the Owners thereof or subject to mandatory purchase may be suspended or terminated without notice. In such event, sufficient funds may not be available to purchase such 2017A Bonds tendered by the Owners thereof or subject to mandatory purchase. The Liquidity Facility does not guarantee the payment of principal or interest or redemption premium, if any, on the 2017A Bonds in the event of non-payment of such interest, principal or redemption premium, if any, by Metropolitan. In addition, the Liquidity Provider has no obligation to pay any interest due on the 2017A Bonds on any Interest Payment Date unless such interest is due in connection with an optional purchase or mandatory purchase of the 2017A Bonds as described herein. See “THE LIQUIDITY FACILITY.”

Remarketing Agent

Metropolitan has initially appointed Citigroup Global Markets Inc., as the remarketing agent (the “Remarketing Agent”) for the 2017A Bonds under the terms of a Remarketing Agreement, dated as of March 1, 2017 (the “Remarketing Agreement”), by and between Metropolitan and the Remarketing Agent. The Remarketing Agent may resign as remarketing agent or Metropolitan may remove the Remarketing Agent as remarketing agent in accordance with the terms of the Remarketing Agreement. See “DESCRIPTION OF THE 2017A BONDS – Remarketing Agent.”

Continuing Disclosure

Metropolitan has agreed, in connection with the issuance of the 2017A Bonds, to provide or to cause to be provided to the Municipal Securities Rulemaking Board (“MSRB”), through the MSRB’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 with respect to the 2017A Bonds. These covenants have been made in order to assist the Underwriter named on the cover page hereof in complying with Rule 15c2-12 (the “Rule”) adopted by the U.S. Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended. See “CONTINUING DISCLOSURE” and APPENDIX G – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.”

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

Miscellaneous

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

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OFFICIAL STATEMENT

\$80,000,000

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Water Revenue Bonds
2017 Authorization Series A**

INTRODUCTION

General

This Official Statement (which includes the cover page hereof, the Summary Statement and all Appendices hereto) provides information concerning The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the sale by Metropolitan of its \$80,000,000 Water Revenue Bonds, 2017 Authorization Series A (the “2017A Bonds”). Metropolitan is issuing its 2017A Bonds pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Chapter 3 (Section 53400 *et seq.*) and Chapter 6 (Section 54300 *et seq.*) of Part 1 of Division 2 of Title 5 (the “Act”), 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 9217 adopted by the Board on January 10, 2017 (the “Twenty-Second Supplemental Resolution” and, together with the Master Resolution, the “Resolutions”). The 2017A Bonds are further described in the Paying Agent Agreement, dated as of March 1, 2017 (the “Paying Agent Agreement”), by and between Metropolitan and The Bank of New York Mellon Trust Company, N.A. (the “Paying Agent”), relating to the 2017A Bonds. The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Revenue bonds issued by Metropolitan pursuant to the Resolutions are referred to in this Official Statement as the “Bonds.”

Metropolitan is issuing the 2017A Bonds for the purpose of providing funds to pay (and to reimburse Metropolitan for) certain costs of certain costs of acquisition, construction and improvements to the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water (the “Water System”) and to pay the costs of issuing the 2017A Bonds. See “FINANCING PLAN” and “ESTIMATED APPLICATION OF PROCEEDS.”

Security for the 2017A Bonds

The 2017A Bonds are special limited obligations of Metropolitan and will be payable as to principal, redemption premium, if any, and interest thereon solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operation and Maintenance Expenditures as described in this Official Statement. The 2017A Bonds when issued will be payable on a parity with Metropolitan’s outstanding and future Bonds issued pursuant to the Resolutions (“Parity Bonds”). Metropolitan will also pay the principal of and redemption premium, if any, and interest on the 2017A Bonds on a parity with its other outstanding and future obligations payable on a parity with the Bonds (“Parity Obligations”). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS.”

The 2017A 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 2017A 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 2017A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues.

Metropolitan has established reserve funds for some of the Series of outstanding Bonds. Metropolitan will not fund a reserve fund for the 2017A 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 2017A Bonds or the Purchase Price thereof.

Additional Parity and Other Obligations

The 2017A 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. As of February 1, 2017, \$4.06 billion of Metropolitan's Parity Bonds were outstanding.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and may incur other Parity Obligations payable and secured on a parity with the 2017A 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 has and may in the future also incur obligations junior and subordinate to the 2017A Bonds and any Parity Bonds or Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS – Additional Indebtedness" and "– Subordinate Obligations." See also "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings."

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on parity with Metropolitan's obligation to pay principal of and interest on the 2017A Bonds and the Parity Bonds. See Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations."

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2017A Bonds, the Parity Bonds or the Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS – Additional Indebtedness."

Certain Terms of the 2017A Bonds; Liquidity Facility for the 2017A Bonds

As described herein, the 2017A Bonds are being initially delivered bearing interest at an Adjustable Interest Rate. The 2017A Bonds will initially be issued in the Daily Mode during which the 2017A Bonds will bear interest at a Daily Rate. The 2017A Bonds will be initially designated as Liquidity Supported Bonds under the Paying Agent Agreement. **This Official Statement describes the terms of the 2017A Bonds only while they bear interest in the Daily Mode and while they are Liquidity Supported Bonds. Prospective investors in the 2017A Bonds must not rely on this Official Statement while such 2017A Bonds bear interest in any other Interest Mode or if they become Self-Liquidity Bonds.**

While bearing interest in the Daily Mode, the 2017A Bonds are subject to optional and mandatory tender for purchase on the terms as described herein. So long as the 2017A Bonds are in the Daily Mode

and are Liquidity Supported Bonds, payment of the purchase price of tendered 2017A Bonds will be payable from the proceeds of remarketing of the 2017A Bonds and, to the extent remarketing proceeds are insufficient, initially from amounts made available under a Standby Bond Purchase Agreement, dated as of March 1, 2017 (the “Liquidity Facility”), by and between Metropolitan and Citibank, N.A. (the “Liquidity Provider”), subject to the terms and conditions set forth therein, and thereafter from such Alternate Liquidity Facility as may be obtained by Metropolitan to provide for payment of the purchase price of such 2017A Bonds. The initial Liquidity Facility terminates on March 27, 2020, unless extended or terminated sooner in accordance with its terms. See “THE LIQUIDITY FACILITY.”

The obligation of the Liquidity Provider to purchase tendered but not remarketed 2017A Bonds is subject to suspension or termination upon the occurrence of certain events under the Liquidity Facility. Suspension or termination may take place without notice to the Owners of the 2017A Bonds. In such event, sufficient funds may not be available to purchase such 2017A Bonds tendered by the Owners thereof or subject to mandatory purchase. The Liquidity Facility does not guarantee the payment of principal of or interest or redemption premium, if any, on the 2017A Bonds in the event of non-payment of such interest, principal or redemption premium, if any, by Metropolitan. In addition, the Liquidity Provider has no obligation to pay any interest due on the 2017A Bonds on any Interest Payment Date unless such interest is due in connection with an optional purchase or mandatory purchase of the 2017A Bonds as described herein. See “THE LIQUIDITY FACILITY.”

Remarketing

Citigroup Global Markets Inc. has initially been appointed remarketing agent (the “Remarketing Agent”) for the 2017A Bonds under the terms of a Remarketing Agreement, dated as of March 1, 2017 (the “Remarketing Agreement”), by and between Metropolitan and the Remarketing Agent. The principal office of the Remarketing Agent is 390 Greenwich Street, 2nd Floor, New York, New York 10013, Attention: Manager, Short Term Finance Group.

Miscellaneous

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

FINANCING PLAN

A portion of the proceeds of the 2017A Bonds is expected to be used to finance a portion of the costs of acquisition and construction of improvements to the Water System of Metropolitan through fiscal year 2017-18, and to reimburse Metropolitan for Water System capital expenditures that were previously incurred. A portion of the proceeds of the 2017A Bonds will also be used to pay the costs of issuing the 2017A Bonds.

ESTIMATED APPLICATION OF PROCEEDS

The proceeds of the 2017A Bonds are expected to be applied as follows:

Deposit to Construction Fund ⁽¹⁾	\$79,510,000
Underwriter’s Discount	90,000
Costs of Issuance ⁽²⁾	400,000
Total	\$80,000,000

- (1) Includes amounts for reimbursement of prior capital expenditures.
- (2) Includes rating agency fees, Municipal Advisory fees, legal fees, printing costs and other costs of issuance.

DESCRIPTION OF THE 2017A BONDS

General

The 2017A Bonds will be dated their date of delivery and will mature on July 1, 2047. The 2017A Bonds are being initially delivered bearing interest at an Adjustable Interest Rate and, as further described below, will initially be issued in the Daily Mode bearing interest at a Daily Rate, and will be initially designated as Liquidity Supported Bonds under the Paying Agent Agreement. The 2017A Bonds are being issued as fully registered bonds, and while in the Daily Mode, will be issued in denominations of \$100,000 or any integral multiples of \$5,000 in excess thereof.

The principal of, and premium, if any, on the 2017A Bonds will be payable in lawful money of the United States of America upon presentment and surrender of such 2017A Bond at the Corporate Trust Office of the Paying Agent. Interest on the 2017A Bonds is payable on each Interest Payment Date (as defined below) by the Paying Agent, by check mailed by first-class mail, postage prepaid, on the date on which such interest is due to the Owners of the 2017A Bonds as of the close of business on the Record Date in respect of such Interest Payment Date at the registered addresses of such Owners they appear on the Bond Register maintained by the Paying Agent. In the case of any Owner of 2017A Bonds in an aggregate principal amount in excess of \$1,000,000 as shown on the registration books kept by the Paying Agent who, prior to the Record Date next preceding any Interest Payment Date, has provided or caused to be provided to, the Paying Agent wire transfer instructions, interest payable on such 2017A Bonds will be paid in accordance with the wire transfer instructions provided by the Owner of such 2017A Bonds (or by the Remarketing Agent on behalf of such Owner). “Record Date” means with respect to 2017A Bonds bearing interest in the Daily Mode, the Business Day immediately preceding each Interest Payment Date. Notwithstanding the foregoing, so long as records of ownership of the 2017A Bonds are maintained through DTC’s book-entry system described under “– Book-Entry Only System” below, all payments to the actual purchasers of an ownership interest in the 2017A Bonds (“Beneficial Owners”) will be made in accordance with the procedures described in Appendix D.

While the 2017A Bonds bear interest in any Interest Mode, the Paying Agent Agreement requires Metropolitan to designate the 2017A Bonds either as Liquidity Supported Bonds or Self-Liquidity Bonds. The designation of the 2017A Bonds as Liquidity Supported Bonds or Self-Liquidity Bonds will determine whether a Liquidity Provider or Metropolitan is responsible for the payment of the Purchase Price of tendered 2017A Bonds to the extent that remarketing proceeds are insufficient. As described above, Metropolitan has initially designated the 2017A Bonds as Liquidity Supported Bonds. While the 2017A Bonds are Liquidity Supported Bonds, a Liquidity Provider will bear the obligation to provide funds to pay the Purchase Price of tendered 2017A Bonds in accordance with the terms of a Liquidity Facility. See “THE LIQUIDITY FACILITY.” Metropolitan may elect to change the 2017A Bonds from

Liquidity Supported Bonds to Self-Liquidity Bonds pursuant to the provisions of the Paying Agent Agreement. See “– Liquidity Supported Bonds and Self-Liquidity Bonds” below.

There are a number of provisions in the Paying Agent Agreement relating to the terms of Bank Bonds (i.e., 2017A Bonds purchased by the Liquidity Provider pursuant to the Liquidity Facility) which are not described in this Official Statement. All references to the terms of the 2017A Bonds in this Official Statement describe only 2017A Bonds which are not owned by the Liquidity Provider unless expressly indicated herein.

Interest Rate Provisions

General. The 2017A Bonds will initially be issued in the Daily Mode during which the 2017A Bonds will bear interest at a Daily Rate until such time as Metropolitan designates a new Interest Mode for such 2017A Bonds or converts the 2017A Bonds to a Fixed Interest Rate as described below. Interest on the 2017A Bonds, while in the Daily Mode, will be calculated on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed and will be payable on the first Business Day of each month, commencing on April 3, 2017. “Business Day” means a day (a) other than a Saturday or Sunday; (b) other than a day on which banks located in the City of New York, New York or the cities in which the respective principal offices of the Fiscal Agent, the Liquidity Provider or the Remarketing Agent, or the Corporate Trust Office of the Paying Agent, are located, are required or authorized by law or executive order to close, and (c) on which the New York Stock Exchange is open. Interest on the 2017A Bonds will also be payable on (i) the effective date of a change in Interest Mode for the 2017A Bonds (or the day that would have been the effective date of a change in Interest Mode had one of the events specified in the Paying Agent Agreement as preventing such change in Interest Mode not occurred), (ii) the date of conversion of the 2017A Bonds to a Fixed Interest Rate, and (iii) the date of final maturity of the 2017A Bonds. Each such date on which interest on the 2017A Bonds is payable is referred to herein as an “Interest Payment Date.”

Metropolitan may, at any time, upon notice as described herein, change the Interest Mode on the 2017A Bonds to a different Interest Mode during which the 2017A Bonds may bear interest at an Adjustable Interest Rate (which pursuant to the Paying Agent Agreement may include a Daily Rate, a Weekly Rate, an Index Tender Rate, Bond Interest Term Rates or a Long Rate) or may convert the 2017A Bonds to a Fixed Interest Rate, upon the terms and conditions set forth in the Paying Agent Agreement. However, pursuant to the Paying Agent Agreement, at any given time, all 2017A Bonds must accrue interest in the same Interest Mode (which pursuant to the Paying Agent Agreement may be the Daily Mode, the Weekly Mode, the Flexible Index Mode, the Index Mode, the Short-Term Mode or the Long Mode) or at a Fixed Interest Rate. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENT” for definitions of certain terms relating to the various available Interest Modes for the 2017A Bonds.

This Official Statement describes the terms of the 2017A Bonds only while they bear interest in the Daily Mode and while they are Liquidity Supported Bonds. Prospective investors must not rely on this Official Statement while the 2017A Bonds bears interest in any other Interest Mode or if they become Self-Liquidity Bonds.

Determination of Daily Rate. While the 2017A Bonds are in the Daily Mode, such 2017A Bonds will bear interest at a Daily Rate. The interest rate payable with respect to such 2017A Bonds (other than Bank Bonds and District Bonds (defined below)) in a Daily Mode will be determined by the Remarketing Agent by no later than 10:00 a.m. (New York City time) on each Business Day for such Business Day. The Daily Rate for any day which is not a Business Day will be the same as the Daily Rate for the immediately preceding Business Day.

The Daily Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of tax-exempt obligations comparable in the judgment of the Remarketing Agent to the 2017A Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by such 2017A Bonds would enable the Remarketing Agent to sell such 2017A Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Daily Rate for any Business Day, then (i) the Daily Rate for such day will be the same as the Daily Rate for the immediately preceding day if the Daily Rate for such preceding day was determined by the Remarketing Agent, or (ii) if no Daily Rate for the immediately preceding day was determined by the Remarketing Agent, or in the event that the Daily Rate determined by the Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such day will be equal to the per annum rate published or reported by Municipal Market Data on its SIFMA Municipal Swap Index most recently available, or if the SIFMA Municipal Swap Index is no longer published or reported, the rate per annum published or reported on the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or if neither the SIFMA Municipal Swap Index nor the S&P Weekly High Grade Index is published, a per annum rate equal to 65% of the London InterBank Offered Rate for one-month deposits in U.S. Dollars.

Any determination by the Remarketing Agent in accordance with the Paying Agent Agreement of the Daily Rate payable with respect to the 2017A Bonds will be conclusive and binding on Metropolitan, the Fiscal Agent, the Paying Agent, and Liquidity Provider (together with the Remarketing Agent, the “Notice Parties”) and the Owners of the 2017A Bonds.

Maximum Interest Rate Limitation. Pursuant to the Paying Agent Agreement, in no event will the interest rate payable with respect to any 2017A Bond exceed the Maximum Interest Rate. “Maximum Interest Rate” means (a) with respect to 2017A Bonds (other than Bank Bonds and District Bonds) the lesser of (i) twelve percent (12%) per annum, or (ii) the maximum interest rate permitted by federal law and the laws of the State of California, (b) with respect to Bank Bonds, the maximum interest rate permitted under federal law and the laws of the State of California with respect to any obligation incurred by Metropolitan under any Liquidity Facility; provided, however, that in no event will the “Maximum Interest Rate” exceed eighteen percent (18%); and (c) with respect to District Bonds, the maximum interest rate permitted by federal law and the laws of the State of California. “Bank Bond” or “Bank Bonds” means any 2017A Bond or 2017A Bonds purchased with moneys provided under any Liquidity Facility and any 2017A Bonds issued in exchange for or in replacement or substitution thereof. “District Bonds” means 2017A Bonds designated by Metropolitan to be Self-Liquidity Bonds or beneficial interests therein that Metropolitan purchases pursuant to the Paying Agent Agreement and the 2017A Bonds issued in exchange for and in replacement or substitution thereof; provided, however, that “District Bonds” does not include any 2017A Bonds that are Liquidity Supported Bonds that Metropolitan owns or any Self-Liquidity Bonds that Metropolitan purchases for its own account outside of and other than the purchase through the Payment Agent Agreement of 2017A Bonds tendered pursuant to thereto as described under “– Tender and Purchase of 2017A Bonds” below.

Certain Circumstances in Which Maximum Interest Rate will Apply. If, while the 2017A Bonds bear interest in the Daily Mode, the Remarketing Agent for the 2017A Bonds resigns and no successor has been appointed as of the effective date of such resignation, then the 2017A Bonds (other than Bank Bonds and District Bonds) will bear interest at the Maximum Interest Rate until Metropolitan appoints a successor Remarketing Agent. Solely with respect to the 2017A Bonds while such 2017A Bonds are Liquidity Supported Bonds, if, while the 2017A Bonds bear interest in the Daily Mode, the obligation of the Liquidity Provider under the Liquidity Facility then in effect to purchase tendered Liquidity Supported Bonds has been terminated or suspended or there is otherwise no Liquidity Facility then in effect with respect to such Liquidity Supported Bonds, then such 2017A Bonds (other than Bank Bonds) will bear

interest at the Maximum Interest Rate until a Liquidity Facility is in effect with respect to the Liquidity Supported Bonds or Metropolitan changes the designation of such 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds pursuant to the Paying Agent Agreement.

Change in Interest Mode or Conversion to Fixed Interest Rate

Change in Interest Mode. The Paying Agent Agreement permits Metropolitan to change the Interest Mode of the 2017A Bonds from the Daily Mode to the Weekly Mode, the Flexible Index Mode, the Index Mode, the Short-Term Mode or the Long Mode. If Metropolitan elects to change the Interest Mode, then Metropolitan will furnish written direction of such election to the Fiscal Agent, the Remarketing Agent and the Paying Agent by registered or certified mail or by Electronic Notice not less than eight (8) days prior to the effective date of the change in Interest Mode of the 2017A Bonds. Any such direction of Metropolitan shall specify the Interest Mode to which the 2017A Bonds are to be changed and shall be accompanied by the form of the notice required to be given by the Paying Agent as described under “– Tender and Purchase of 2017A Bonds – Notice of Mandatory Tender – *Notice of Mandatory Tender Upon Change in Interest Mode*” below.

Notwithstanding anything in the Paying Agent Agreement to the contrary, in connection with any change in the Interest Mode of the 2017A Bonds from the Daily Rate to a Long Rate, Metropolitan will deliver to the other Notice Parties a Favorable Opinion of Bond Counsel on the effective date of such change. If bond counsel fails to deliver a Favorable Opinion of Bond Counsel on any such date, then the Interest Mode for the 2017A Bonds will not be changed, and the 2017A Bonds will continue to bear interest in the Daily Mode as in effect immediately prior to such proposed change in the Interest Mode (and, will continue as Liquidity Supported Bonds or Self-Liquidity Bonds as in effect prior to such proposed change in Interest Mode). In such event, if notice of such change in Interest Mode has been given to the Owners of such 2017A Bonds as provided in the Paying Agent Agreement and Metropolitan fails to deliver a Favorable Opinion of Bond Counsel on the effective date as herein described, such 2017A Bonds will continue to be subject to mandatory purchase on the date which would have been the effective date of such change as provided in the Paying Agent Agreement; provided, however, that, notwithstanding anything in the Paying Agent Agreement to the contrary, unless such 2017A Bonds are Self-Liquidity Bonds prior to such proposed change, Metropolitan will have no liability or obligation to pay the Purchase Price of such 2017A Bonds so tendered.

Conversion to Fixed Interest Rate. The Paying Agent Agreement also permits Metropolitan to convert the interest rate on the 2017A Bonds to a Fixed Interest Rate. Metropolitan may exercise its option to convert the 2017A Bonds to the Fixed Interest Rate, by giving, not less than ten (10) days prior to the Fixed Rate Date, notice to the Fiscal Agent, the Remarketing Agent and the Paying Agent of its election to convert the interest payable with respect to the 2017A Bonds to a Fixed Interest Rate. Such notice shall specify the Fixed Rate Date, which may be any Business Day for which Owners may be given timely notice of conversion as described under “–Tender and Purchase of 2017A Bonds – Notice of Mandatory Tender – *Notice of Mandatory Tender Upon Conversion to Fixed Interest Rate.*” Such notice shall be accompanied by a Favorable Opinion of Bond Counsel. Notwithstanding anything in the Paying Agent Agreement to the contrary, following the conversion of the 2017A Bonds to a Fixed Interest Rate, Metropolitan may not elect to adjust the interest rate on the 2017A Bonds from a Fixed Interest Rate to any other Interest Mode.

Redemption of 2017A Bonds

Optional Redemption. The 2017A Bonds in the Daily Mode are subject to optional redemption by Metropolitan in whole or in part, in Authorized Denominations, on any date, at a redemption price

equal to 100% of the principal being redeemed plus accrued interest, if any, to such Redemption Date, without premium.

Mandatory Sinking Fund Redemption. The 2017A Bonds are 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, 2047, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from Mandatory Sinking Account Payments which have been deposited in the Bond Service Fund, in the principal amounts set forth as follows:

Redemption Date (July 1)	Principal Amount
2041	\$ 9,500,000
2042	9,675,000
2043	9,850,000
2044	10,030,000
2045	10,215,000
2046	15,225,000
2047 [†]	15,505,000

[†] Final Maturity

Mandatory Sinking Account Payments for the 2017A Bonds will be reduced to the extent Metropolitan has purchased such 2017A Bonds and surrendered such 2017A Bonds to the Fiscal Agent for cancellation. If such 2017A Bonds have been so purchased and cancelled or if 2017A Bonds have been otherwise redeemed as provided in the Paying Agent Agreement, then the amount of the 2017A Bonds so purchased and cancelled or redeemed will be credited to such future Mandatory Sinking Account Payments as may be specified by Metropolitan. A reduction of Mandatory Sinking Account Payments in any twelve-month period ending July 1 will reduce the principal amount of 2017A Bonds subject to mandatory sinking fund redemption on that July 1.

Redemption on any Purchase Date. On any date on which 2017A Bonds are tendered for purchase pursuant to the Paying Agent Agreement, Metropolitan may, at its sole discretion (and without compliance with the notice provisions of the Paying Agent Agreement), redeem all or any portion of such 2017A Bonds tendered for purchase at a redemption price equal to the Purchase Price thereof. Any 2017A Bonds so redeemed will be cancelled as provided in the Paying Agent Agreement and will not be reissued or remarketed.

Selection of 2017A Bonds for Redemption. In the case of redemption of 2017A Bonds in part, the Paying Agent will select 2017A Bonds for redemption in the following order: *first*, the Paying Agent will select Bank Bonds for redemption before selecting any other 2017A Bonds for redemption; and *second*, the Paying Agent will select for redemption by lot all 2017A Bonds remaining Outstanding (other than District Bonds, if any, before selecting any District Bonds for redemption).

Notice of Redemption. Notice of redemption will be given by the Paying Agent by Mail or by Electronic Notice not less than twenty (20) nor more than forty-five (45) days prior to the Redemption Date to (i) the respective Owners of any 2017A Bonds designated for redemption at their addresses appearing on the register maintained pursuant to the Paying Agent Agreement (or, so long as the 2017A Bonds are Book-Entry Bonds, to DTC), (ii) the Remarketing Agent, (iii) the Liquidity Provider, (iv) the Fiscal Agent and (v) one or more Information Services (which currently, unless otherwise designated by Metropolitan, shall be the MSRB through the EMMA System). Each notice of redemption will state the

date of such notice, the distinguishing designation of the 2017A Bonds, the date of issue of such 2017A Bonds, the Redemption Date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Paying Agent), the CUSIP number, if any, of the maturity or maturities and, if less than all of any such maturity, the distinctive certificate numbers of the 2017A Bonds of such maturity to be redeemed and, in the case of 2017A Bonds to be redeemed in part only, the respective portion of the principal amount thereof to be redeemed. Each such notice will also state that on such date there will become due and payable with respect to each of such 2017A Bonds the redemption price thereof or of such specified portion of the principal amount thereof in the case of a 2017A Bond to be redeemed in part only, and that from and after such Redemption Date, the related interest due thereon will cease to accrue, and will require that such 2017A Bonds be then surrendered at the address or addresses of the Paying Agent specified in the redemption notice. Notice of any redemption will either (i) state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the Redemption Date sufficient money to pay the full redemption price of the 2017A Bonds (or portion thereof) to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the 2017A Bonds (or portion thereof) to be redeemed is on deposit in the applicable fund or account. All such amounts deposited for the redemption of 2017A Bonds will be held uninvested or will be invested in Federal Securities (as defined in the Resolutions) which mature on or prior to such Redemption Date.

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

Failure by the Paying Agent to give notice as described herein to any one or more of the Remarketing Agent, the Fiscal Agent, any Liquidity Provider or the Information Services or the failure of any Owner of 2017A Bonds designated for redemption to receive notice of redemption or any defect in such notice will not affect the sufficiency and validity of the proceedings for redemption.

Effect of Redemption. If notice of redemption has been duly given to the Owners as provided in the Paying Agent Agreement and funds for the payment of the redemption price of the 2017A Bonds to be redeemed are held by the Paying Agent on the designated Redemption Date, then, on the Redemption Date designated in such notice, the redemption price of the 2017A Bonds so called for redemption will become due and payable as specified in such notice. From and after the date so designated interest due with respect to the 2017A Bonds or portions thereof so called for redemption will cease to accrue, such 2017A Bonds will cease to be entitled to any benefit, protection or security under the Paying Agent Agreement and the Owners of such 2017A Bonds will have no rights in respect thereof except to receive payment of the redemption price. The Paying Agent will, upon surrender for payment of any of the 2017A Bonds to be redeemed on their respective Redemption Dates, pay such 2017A Bonds at the redemption price. If such moneys will not be available on the Redemption Date, such 2017A Bonds will continue to bear interest until paid at the same rate they would have borne had they not been called for redemption. Notwithstanding the foregoing, any Bank Bonds shall remain Outstanding until any Liquidity Provider is paid all amounts due under such Bank Bonds or portions thereof to be redeemed on their respective Redemption Dates. All 2017A Bonds redeemed in whole or in part pursuant to the provisions of the Paying Agent Agreement will be cancelled by the Fiscal Agent and will not be reissued.

Tender and Purchase of 2017A Bonds

General

The 2017A Bonds are subject to purchase upon tender by the Owners thereof and are subject to mandatory purchase under certain circumstances pursuant to the terms of the Paying Agent Agreement. The purchase price of the 2017A Bonds is payable from the proceeds of a remarketing of such 2017A Bonds and, so long as the 2017A Bonds are Liquidity Supported Bonds, to the extent remarketing proceeds attributable to such 2017A Bonds in a Daily Mode are insufficient or not available therefor, initially from amounts available under the Liquidity Facility, subject to the terms and conditions set forth therein, and thereafter from such Alternate Liquidity Facility as may be obtained by Metropolitan to provide for payment of the purchase price of the 2017A Bonds. The Liquidity Facility terminates on March 27, 2020, unless extended or terminated sooner in accordance with its terms. Under the circumstances described herein, the obligation of the initial Liquidity Provider to purchase the 2017A Bonds tendered by the Owners thereof or subject to mandatory purchase may be terminated or suspended without notice. See “THE LIQUIDITY FACILITY.” In such event, sufficient funds may not be available to purchase the 2017A Bonds tendered by the registered owners thereof or subject to mandatory purchase. See also “– Purchase and Remarketing of 2017A Bonds – *Sources of Funds for Purchase of Tendered 2017A Bonds*” below.

Optional Tender for Purchase

Optional Tender During Daily Mode. While the 2017A Bonds bear interest in the Daily Mode, any Owner of a 2017A Bond (other than a Bank Bond or a District Bond) will have the right to tender its 2017A Bond (or a portion thereof in an amount equal to an Authorized Denomination) to Metropolitan for purchase on any Business Day at a purchase price equal to the principal amount of such 2017A Bonds, plus accrued and unpaid interest to the purchase date (unless the purchase date is otherwise an Interest Payment Date, in which case the purchase price shall not include accrued interest, which shall be paid in the normal course) (the “Purchase Price”), payable in immediately available funds, upon delivery to the Remarketing Agent and to the Paying Agent at its Corporate Trust Office, by no later than 11:00 a.m. (New York City time), on such Business Day, of a written notice (or an Electronic Notice confirmed by a written notice) which states (i) the principal amount of such 2017A Bond to be purchased, (ii) the purchase date, (iii) applicable payment instructions with respect to the 2017A Bond tendered for purchase, and (iv) an irrevocable demand for such purchase.

Mandatory Tender for Purchase

Mandatory Tender of Liquidity Supported Bonds upon Termination, Expiration or Replacement of the Liquidity Facility or Change in Designation to Self-Liquidity Bonds. Subject to the provisions described under “– Special Provisions for Liquidity Supported Bonds” below and to the exception described in the next succeeding paragraph, so long as the 2017A Bonds are in the Daily Mode and are designated by Metropolitan as Liquidity Supported Bonds, the 2017A Bonds will be subject to mandatory tender for purchase: (A) on the effective date of an Alternate Liquidity Facility that Metropolitan delivers to the Paying Agent pursuant to and subject to the conditions set forth in the Paying Agent Agreement; or (B) on the effective date of the election by Metropolitan pursuant to the Paying Agent Agreement to change the 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds; or (C) on the first (1st) Business Day which is at least five (5) calendar days immediately preceding the expiration date of the Liquidity Facility then in effect with respect to the 2017A Bonds; or (D) on a Business Day which is no later than five (5) calendar days following receipt by the Paying Agent of a written notice from the Liquidity Provider providing that an event of default or event of termination has occurred and is continuing under the Liquidity Facility then in effect with respect to the 2017A Bonds and

requesting the Paying Agent to cause the mandatory tender of the 2017A Bonds for purchase, in each case, at the Purchase Price, payable in immediately available funds.

Notwithstanding anything to the contrary in the Paying Agent Agreement with respect to the tender and purchase of the 2017A Bonds, if Metropolitan delivers to the Fiscal Agent, the Paying Agent and the Remarketing Agent, prior to the date that notice is given to Owners of 2017A Bonds of a mandatory tender in connection with the termination, expiration or replacement of a Liquidity Facility or the change in designation of the 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, written evidence from each Rating Agency to the effect that (i) the expiration or other termination of the Liquidity Facility for the 2017A Bonds then in effect, or (ii) the replacement of such Liquidity Facility with an Alternate Liquidity Facility pursuant to the Paying Agent Agreement, or (iii) the change in designation of the 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, as the case may be, in and of itself, will not result in the withdrawal or reduction of the rating category of the short-term rating(s) then applicable to the 2017A Bonds, then the 2017A Bonds will not be subject to mandatory tender for purchase as described in the preceding paragraph solely as a result of such expiration, termination or replacement of the Liquidity Facility or change in designation of such 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds. If no mandatory tender for purchase of such 2017A Bonds will be required as described herein, then the Paying Agent will give notice by Mail to the Owners of the applicable 2017A Bonds (or, so long as the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not less than seven (7) days before the date of expiration, termination or replacement of the Liquidity Facility or change in designation of such 2017A Bonds to Self-Liquidity Bonds. Such notice will be substantially similar to the form of the notice that would be required to be delivered by the Paying Agent if the 2017A Bonds were subject to a mandatory tender for purchase as a result of such expiration, termination or replacement of the Liquidity Facility or change in designation of the 2017A Bonds to Self-Liquidity Bonds absent the application of the exception described in this paragraph.

Mandatory Tender Upon Change in Interest Mode. Except in connection with a change in the Interest Mode of the 2017A Bonds from the Daily Mode to a Weekly Mode (or from a Weekly Mode to a Daily Mode) and subject to the provisions described under “– Rescission of Certain Mandatory Tender Events” below, the 2017A Bonds are subject to mandatory tender for purchase on the effective date of a change in the Interest Mode of the 2017A Bonds (or, in connection with a change of Interest Mode on the 2017A Bonds from the Daily Mode to a Long Mode, on the day which would have been the effective date of a new Interest Mode had there not been a failure to deliver a Favorable Opinion of Bond Counsel on such date as provided in the Paying Agent Agreement which resulted in the Interest Mode of such 2017A Bonds not being changed), at the Purchase Price, payable in immediately available funds. See also “– Change in Interest Mode or Conversion to Fixed Interest Rate – *Change in Interest Mode*” above.

Mandatory Tender Upon Conversion to Fixed Interest Rate. Subject to the provisions described under “– Rescission of Certain Mandatory Tender Events” below, the 2017A Bonds are subject to mandatory tender for purchase on the Fixed Rate Date at the Purchase Price, payable in immediately available funds. See also “– Change in Interest Mode or Conversion to Fixed Interest Rate – *Conversion to Fixed Interest Rate*” above.

Mandatory Tender at Metropolitan’s Election. Subject to the provisions described under “– Rescission of Certain Mandatory Tender Events” below, while bearing interest in the Daily Mode, the 2017A Bonds are also subject to mandatory tender for purchase (in whole), at the Purchase Price, payable in immediately available funds, on any Business Day on which Metropolitan elects to provide for a mandatory tender for purchase of such 2017A Bonds and which Metropolitan specifies in writing to the Paying Agent no later than twenty (20) days before such Business Day.

Rescission of Certain Mandatory Tender Events. With respect to any mandatory tender for purchase on the effective date of a change in Interest Mode, upon conversion to a Fixed Interest Rate, or at Metropolitan’s election, Metropolitan may rescind such mandatory tender for purchase by delivery of a written notice to that effect to the Paying Agent at its Corporate Trust Office and the Remarketing Agent, on or prior to 5:00 p.m. (New York City time) on the Business Day immediately preceding the Mandatory Purchase Date. If Metropolitan rescinds any such mandatory tender for purchase, then no purchase will occur and the Owners will continue to own the 2017A Bonds as if no notice of mandatory tender for purchase were delivered.

Special Provisions for Liquidity Supported Bonds

Notwithstanding anything to the contrary described under this heading “Tender and Purchase of 2017A Bonds,” (A) no Liquidity Supported Bonds will be subject to (i) optional tender for purchase in the Daily Mode as described under “– Optional Tender for Purchase” above or (ii) mandatory tender for purchase as described under “– Mandatory Tender for Purchase” above, upon the occurrence of any “Suspension Event” or “Immediate Termination Event” (or words of similar import) under any Liquidity Facility which results in immediate suspension or termination of the Liquidity Provider’s obligation under the Liquidity Facility to purchase such Liquidity Supported Bonds; (B) no Owner of any Liquidity Supported Bonds that constitute Bank Bonds may optionally tender such Liquidity Supported Bonds while such 2017A Bonds are in a Daily Mode; and (C) Metropolitan will have no liability to purchase Liquidity Supported Bonds from any of its assets other than amounts received from proceeds of remarketings and moneys furnished by or at the direction of the Paying Agent and received from the Liquidity Provider pursuant to the Liquidity Facility then in effect. See “Purchase and Remarketing of 2017A Bonds – Sources of Funds for Purchase of Tendered 2017A Bonds” below.

Notice of Mandatory Tender

Notice of mandatory tender for purchase of the 2017A Bonds will be given as follows:

Notice of Mandatory Tender upon Effective Date of Alternate Liquidity Facility. If Liquidity Supported Bonds are subject to mandatory tender for purchase in connection with the delivery of an Alternate Liquidity Facility for the 2017A Bonds, then the Paying Agent will give notice by Mail to the Owners of the 2017A Bonds (or, so long as the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than seven (7) days before the Mandatory Purchase Date. The notice will (A) state the expected effective date of such Alternate Liquidity Facility, (B) state that such 2017A Bonds will be subject to mandatory tender for purchase, (C) state the Mandatory Purchase Date, and (D) specify the short-term and long-term ratings, if any, to be applicable to the 2017A Bonds after the effective date of the Alternate Liquidity Facility.

Notice of Mandatory Tender for Purchase upon Expiration of a Liquidity Facility. If Liquidity Supported Bonds are subject to mandatory tender for purchase in connection with the expiration of the Liquidity Facility then in effect for the 2017A Bonds, then the Paying Agent will give notice by Mail to the Owners of the 2017A Bonds (or, so long as the 2017A Bonds are then Book-Entry Bonds, to DTC by Mail or by Electronic Notice), not later than seven (7) days before the Mandatory Purchase Date. The notice will state (A) that the Liquidity Facility then in effect with respect to such 2017A Bonds has not been renewed, (B) that a copy of a commitment to issue an Alternate Liquidity Facility has not been delivered to the Paying Agent, (C) that the 2017A Bonds are subject to mandatory tender for purchase, and (D) the Mandatory Purchase Date.

Notice of Mandatory Tender upon Termination of a Liquidity Facility. If Liquidity Supported Bonds are subject to mandatory tender for purchase in connection with the occurrence and continuance of

an event of default or event of termination under the Liquidity Facility then in effect for the 2017A Bonds, then the Paying Agent will give notice by Mail to the Owners of the affected 2017A Bonds (or, so long as the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), not later than two (2) Business Days following receipt of the written notice from the Liquidity Provider of the occurrence and continuance of an event of default or event of termination under the Liquidity Facility and requesting the Paying Agent to cause the mandatory tender of the 2017A Bonds. The notice by the Paying Agent will state (A) that the Paying Agent has received the referenced notice from the Liquidity Provider and describe such notice, (B) that the affected 2017A Bonds are subject to mandatory tender for purchase, (C) the Mandatory Purchase Date, and (D) if applicable, whether, under the Liquidity Facility then in effect, the Liquidity Provider will be obligated to purchase the 2017A Bonds upon such mandatory tender for purchase.

Notice of Mandatory Tender Upon Change in Designation to Self-Liquidity Bonds. If the 2017A Bonds are subject to mandatory tender for purchase in connection with Metropolitan's election to change the designation of the 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, then the Paying Agent will give notice by Mail to the Owners of the 2017A Bonds (or, so long as the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than the seven (7) days before the Mandatory Purchase Date. The notice will state (A) the effective date of the change of the 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds, and (B) if applicable, that the 2017A Bonds are subject to mandatory tender for purchase on such effective date and setting forth the applicable Purchase Price.

Notice of Mandatory Tender for Purchase upon Change in Interest Mode. In connection with any mandatory tender for purchase of 2017A Bonds (if required) upon a change in Interest Mode of the 2017A Bonds, the Paying Agent will give notice of a mandatory tender for purchase as a part of the notice given pursuant to the Paying Agent Agreement in connection with the election by Metropolitan of a new Interest Mode. Such notice will be given by Mail to the Owners of the applicable 2017A Bonds (or, so long as the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not less than seven (7) days prior to the date on which such 2017A Bonds will be purchased. The notice will state, among other things (A) that Metropolitan has elected to change the Interest Mode of the 2017A Bonds from the Daily Mode and the Interest Mode to which the 2017A Bonds will be changed (unless, in connection with a change to a Long Mode, Metropolitan fails to deliver to the Notice Parties a Favorable Opinion of Bond Counsel as to such change), (B) the effective date of the change, (B) in connection with a change to the Weekly Mode, the Short-Term Mode or a Long Mode, whether, upon the change to such Interest Mode, the 2017A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds, (D) if the 2017A Bonds will be Liquidity Supported Bonds following the change to the Interest Mode, the name of the Liquidity Provider, and (E) if applicable, that the 2017A Bonds are subject to mandatory tender for purchase on such effective date and setting forth the applicable Purchase Price.

Notice of Mandatory Tender for Purchase upon Conversion to Fixed Interest Rate. In connection with any mandatory tender for purchase of 2017A Bonds (if required) upon conversion to a Fixed Interest Rate, the Paying Agent will give notice by Mail to the Owners of the 2017A Bonds (or, if the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than seven (7) days before the Mandatory Purchase Date. The notice will state (A) that the interest rate with respect to the 2017A Bonds will be converted to the Fixed Interest Rate; (B) the Fixed Rate Date; (C) the date the Fixed Interest Rate is to be established; (D) that interest on the 2017A Bonds will be payable on each January 1 and July 1 after the Fixed Rate Date; (E) that subsequent to the Fixed Rate Date, the Owners of such 2017A Bonds will no longer have the right to deliver their 2017A Bonds to the Paying Agent for purchase; (F) that all Outstanding 2017A Bonds will be purchased on the Fixed Rate Date, setting forth the applicable Purchase Price; and (G) that on and after the Fixed Rate Date, the Owners of the 2017A Bonds immediately preceding the Fixed Rate Date will be deemed to have tendered

their 2017A Bonds as of the Fixed Rate Date to the Paying Agent. From and after the Fixed Rate Date, such Owners will not be entitled to any payment (including any interest to accrue from and after the Fixed Rate Date) other than the Purchase Price for such 2017A Bonds which will be an amount equal to the principal amount thereof plus accrued interest, if any, with respect thereto, calculated as of the Fixed Rate Date.

Notice of Mandatory Tender at Metropolitan's Election. If the 2017A Bonds are subject to mandatory tender for purchase at Metropolitan's election, then the Paying Agent will give notice by Mail to the Owners of the 2017A Bonds (or, so long as the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than seven (7) days before the Mandatory Purchase Date. The notice will state (A) that Metropolitan has elected to provide for a mandatory tender for purchase of such 2017A Bonds and (B) the Mandatory Purchase Date.

Additional Information to be Included in any Notice of Mandatory Tender in the Event the 2017A Bonds are Not Book-Entry Bonds. If at any time the 2017A Bonds are no long Book-Entry Bonds, then, any notice of mandatory tender will, in addition to the information required to be stated therein as provided in the Paying Agent Agreement, will also state (A) that the Purchase Price of any 2017A Bond so subject to mandatory purchase will be payable only upon surrender of such 2017A Bond to the Paying Agent at its Corporate Trust Office for delivery of 2017A Bonds, accompanied by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or the Owner's duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; and (B) that, if any Owner of a 2017A Bond does not surrender such 2017A Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2017A Bond will be deemed to be an "Undelivered Bond" and to have been purchased on the Mandatory Purchase Date, and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights hereunder or under the Resolutions other than to receive payment of the Purchase Price thereof.

Delivery of 2017A Bonds to be Purchased and Payment of the Purchase Price

Payment of Purchase Price Upon Delivery of 2017A Bonds. For payment of the Purchase Price of any 2017A Bond to be purchased as described under "– Optional Tender for Purchase" or "– Mandatory Tender for Purchase," on the specified purchase date therefor, such 2017A Bond must be delivered, in the case of 2017A Bonds in the Daily Mode, at or prior to 11:00 a.m. (New York City time), on the purchase date, to the Paying Agent at its Corporate Trust Office for delivery of 2017A Bonds accompanied, when the 2017A Bonds are not Book-Entry Bonds, by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or his duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution. If any such 2017A Bond is delivered after 11:00 a.m. (New York City time) in the case of the 2017A Bonds while in the Daily Mode, on the purchase date therefor, payment of the Purchase Price of such 2017A Bond need not be made until the Business Day following the date of delivery of such 2017A Bond but such 2017A Bond will nonetheless be deemed to have been purchased on the date specified in such notice and no interest will accrue thereon from and after such date.

Undelivered 2017A Bonds. The Paying Agent may refuse to accept delivery of any 2017A Bond for which a proper instrument of transfer has not been provided; such refusal, however, will not affect the validity of the purchase of such 2017A Bond as herein described. If any Owner of a 2017A Bond bearing interest in the Daily Mode gives notice of its optional tender for purchase of 2017A Bonds or any Owner of a 2017A Bond subject to mandatory tender for purchase in connection with the termination, expiration or replacement of the Liquidity Facility, a change in designation of the 2017A Bonds to Self-Liquidity Bonds, a change in the Interest Mode, a conversion to a Fixed Interest Rate, or at Metropolitan's election

fails to deliver such 2017A Bond to the Paying Agent at the place and on the applicable date and at the time specified, or fails to deliver such 2017A Bond properly endorsed, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent for such purpose, such 2017A Bond will constitute an “Undelivered Bond.” If funds in the amount of the Purchase Price of the Undelivered Bonds are available for payment to the Owner thereof on the date and at the time specified, from and after the date and time of that required delivery, (1) each Undelivered Bond will be deemed to be purchased; (2) interest will no longer accrue thereon and the Owner thereof will have no rights under the Resolutions other than to receive payment of the Purchase Price thereof calculated as of the applicable purchase date; and (3) funds in the amount of the Purchase Price of each such Undelivered Bond will be held by the Paying Agent for the benefit of the Owner thereof (provided that the Owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Undelivered Bond to the Paying Agent at its Corporate Trust Office for delivery of 2017A Bonds. Any funds held by the Paying Agent as described in clause (3) of the preceding sentence will be held uninvested and not commingled.

The Paying Agent will determine timely and proper delivery of 2017A Bonds pursuant to the Paying Agent Agreement and the proper endorsement of such 2017A Bonds. Such determination will be binding on the Owners of such 2017A Bonds, Metropolitan, the Remarketing Agent, the Liquidity Provider and the Fiscal Agent, absent manifest error.

Notice of Owner’s Election to Tender Bond Deemed to be Irrevocable. The giving of notice by an Owner of a 2017A Bond of optional tender while such 2017A Bond bears interest in the Daily Mode as described under “– Optional Tender for Purchase – *Optional Tender During Daily Mode*” above will constitute the irrevocable tender for purchase of each such 2017A Bond with respect to which such notice will have been given, regardless of whether such 2017A Bond is delivered to the Paying Agent for purchase on the relevant purchase date.

Payment of Purchase Price. Subject to the provisions of the Paying Agent Agreement, the Paying Agent will pay the Purchase Price of any 2017A Bonds purchased or deemed purchased as described under “– Optional Tender for Purchase” or “– Mandatory Tender for Purchase” above, by check mailed by Mail to the Owners of the 2017A Bonds as of the close of business on the purchase date at the registered addresses of Owners they appear on the Bond Register maintained by the Paying Agent. In the case of any Owner of 2017A Bonds in an aggregate principal amount in excess of \$1,000,000 as shown on the registration books kept by the Paying Agent who, prior to the purchase date, has provided, or caused to be provided to, the Paying Agent wire transfer instructions, the Paying Agent will pay the Purchase Price on such 2017A Bonds in accordance with the wire transfer instructions provided by the Owner of such 2017A Bonds (or by the Remarketing Agent on behalf of such Owner).

Tenders of Book-Entry Bonds. Notwithstanding any provision to the contrary contained in the Paying Agent Agreement, all tenders for purchase during any period in which the 2017A Bonds are registered in the name of Cede & Co. (or the nominee of any successor Securities Depository) are subject to the terms and conditions set forth in the Representation Letter and any rules and regulations promulgated by DTC (or any successor Securities Depository). Subject thereto, the 2017A Bonds may be tendered by means of a book-entry credit of such 2017A Bonds to the account of the Remarketing Agent; provided, however, that under circumstances permitted by such rules and regulations notice of tender will be given by a purchaser of 2017A Bonds on behalf of the beneficial owner of such 2017A Bonds; and provided further that, if the Remarketing Agent notifies the Paying Agent that 2017A Bonds have been remarketed, such 2017A Bonds may be treated as being tendered upon a book-entry transfer of such 2017A Bonds from the account of the tendering party to the credit of the account of the purchaser of such 2017A Bonds.

Purchase and Remarketing of 2017A Bonds

Sources of Funds for Purchase of Tendered 2017A Bonds. The Paying Agent Agreement requires Metropolitan to purchase 2017A Bonds bearing interest in a Daily Mode from the Owners thereof pursuant to the optional and mandatory tender provisions in the Paying Agent Agreement and described under “–Tender and Purchase of 2017A Bonds – Optional Tender for Purchase” and “–Mandatory Tender for Purchase” above on the applicable purchase date therefor and at the Purchase Price from the following sources in the order of priority indicated:

- (i) proceeds of the sale of such 2017A Bonds remarketed to any person pursuant to the Paying Agent Agreement and furnished to the Paying Agent by the Remarketing Agent for deposit into the Remarketing Proceeds Account of the Purchase Fund; and
- (ii) solely with respect to 2017A Bonds while designated as Liquidity Supported Bonds, moneys furnished by or at the direction of the Paying Agent for deposit into the Purchase Account of the Purchase Fund representing moneys received from the Liquidity Provider pursuant to the Liquidity Facility then in effect.

While the 2017A Bonds are Liquidity Supported Bonds, Metropolitan will have no obligation to pay the Purchase Price of any Liquidity Supported Bonds tendered for purchase as described under “–Tender and Purchase of 2017A Bonds – Optional Tender for Purchase” and “–Mandatory Tender for Purchase” above except from the moneys from the sources described in clauses (i) and (ii) above.

If for any reason Metropolitan does not purchase all 2017A Bonds tendered or deemed tendered and required to be purchased pursuant to the Paying Agent Agreement on the required purchase date therefor (such an event being referred to herein as a “Failed Tender”), then the Paying Agent will return all tendered 2017A Bonds to their respective Owners and the 2017A Bonds will bear interest at the Maximum Interest Rate from the date of the Failed Tender until all 2017A Bonds tendered on the date of such Failed Tender are purchased. From and after a Failed Tender, the Paying Agent will continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Provider to purchase all 2017A Bonds tendered on the purchase date therefor on which such Failed Tender occurs. Notwithstanding the foregoing, no Failed Tender will constitute an Event of Default under the Paying Agent Agreement or an “Event of Default” with respect to payment of principal of and interest on the 2017A Bonds by Metropolitan under the Master Resolution or under any other provision of the Resolutions.

Remarketing of the 2017A Bonds. Upon notice of any optional tender for purchase of 2017A Bonds by an Owner thereof bearing interest in the Daily Mode or upon the receipt of a notice of mandatory tender for purchase of 2017A Bonds upon the termination, expiration or replacement of the Liquidity Facility, change in designation to Self-Liquidity Bonds, a change in Interest Mode, conversion to Fixed Interest Rate or at Metropolitan’s election, the Paying Agent Agreement requires the Remarketing Agent to offer for sale and use its best efforts to sell in accordance with the Remarketing Agreement all such 2017A Bonds, any such sale to be made on the date of such purchase in accordance with the applicable provisions of the Paying Agent Agreement at the minimum interest rate which, if borne by such 2017A Bonds, would enable the Remarketing Agent to sell such 2017A Bonds on the purchase date therefor at a price (without regard to accrued interest) equal to the principal amount thereof (except as provided by the Paying Agent Agreement in connection with a conversion to a Fixed Interest Rate or in connection with a tender for purchase of 2017A Bonds as a result of a change of Interest Mode to a Flexible Index Mode or an Index Mode). The Remarketing Agent will not remarket any Liquidity Supported Bonds unless a Liquidity Facility is then in effect with respect to such 2017A Bonds or unless such 2017A Bonds are being remarketed at the Fixed Interest Rate on the Fixed Rate Date. The

Remarketing Agent agrees that it shall not sell to the District any Liquidity Supported Bonds tendered for purchase as described under “–Tender and Purchase of 2017A Bonds” above.

Demand for Purchase of Liquidity Supported Bonds Under the Liquidity Facility. Pursuant to the Paying Agent Agreement, the Paying Agent is directed to notify the Liquidity Provider on the purchase date in accordance with the terms of the Liquidity Facility then in effect for the 2017A Bonds as to the aggregate Purchase Price of tendered Liquidity Supported Bonds that the Liquidity Provider is required to purchase and make a demand for the purchase of such Liquidity Supported Bonds under the Liquidity Facility then in effect in accordance with its terms, such that the Paying Agent will receive amounts sufficient to timely pay the Purchase Price of all tendered Liquidity Supported Bonds on the purchase date therefor. Upon the receipt of amounts under the Liquidity Facility then in effect, the Paying Agent will deposit an amount equal to the Purchase Price of all tendered Liquidity Supported Bonds in the applicable Purchase Account. In determining the amount of any such Purchase Price then due, the Paying Agent will not take into consideration any Purchase Price due on Liquidity Supported Bonds registered in the name of Metropolitan or any affiliate of Metropolitan to the extent identified to the Paying Agent or in the name of the Liquidity Provider and no demand for purchase under the Liquidity Facility will be made to pay the Purchase Price of any Liquidity Supported Bonds registered in the name of Metropolitan or any affiliate of Metropolitan to the extent identified to the Paying Agent or in the name of the Liquidity Provider. By 3:15 p.m. (New York City time) the Paying Agent will purchase the tendered Liquidity Supported Bonds, and remit to the Liquidity Provider such funds in the Purchase Account which the Paying Agent did not use to purchase tendered Liquidity Supported Bonds.

Remarketing Agent

Metropolitan has initially appointed Citigroup Global Markets Inc. as the Remarketing Agent for the 2017A Bonds under the terms of the Remarketing Agreement. Under the Remarketing Agreement, the Remarketing Agent may at any time resign as remarketing agent for the 2017A Bonds and be discharged of the duties and obligations created by the Paying Agent Agreement thereunder by giving notice to Metropolitan, the Fiscal Agent, the Paying Agent and the Liquidity Provider. Such resignation will take effect on the sixtieth (60th) day after the receipt by Metropolitan of the notice of resignation. The Remarketing Agent may be removed for any reason by Metropolitan upon thirty (30) days’ notice to the Remarketing Agent and the other Notice Parties (as defined in the Paying Agent Agreement); provided, however, if the Remarketing Agent is in default under the Remarketing Agreement, Metropolitan may immediately remove the Remarketing Agent at any time by written notice given by Metropolitan and delivered to the Remarketing Agent and the other Notice Parties.

Special Considerations Related to Remarketing of 2017A Bonds

The Remarketing Agent Is Paid by Metropolitan. The Remarketing Agent’s responsibilities include determining the interest rate from time to time and remarketing the 2017A Bonds that are optionally or mandatorily tendered by the Owners thereof (subject, in each case, to the terms of the Remarketing Agreement and the Paying Agent Agreement), as further described in this Official Statement. The Remarketing Agent is appointed by Metropolitan and is paid by Metropolitan for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of the 2017A Bonds.

The Remarketing Agent May Purchase the 2017A Bonds for Its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, may purchase such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered the 2017A Bonds for its own account and, in its sole discretion, routinely acquires such tendered Bonds in order to achieve a successful remarketing of such 2017A

Bonds (*i.e.*, because there otherwise are not enough buyers to purchase such 2017A Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase such 2017A Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the 2017A Bonds by routinely purchasing and selling such 2017A Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in such 2017A Bonds. The Remarketing Agent may also sell any of the 2017A Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to such 2017A Bonds. The purchase of such 2017A Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for such 2017A Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

The 2017A Bonds May Be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the 2017A Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the date of determination of such interest rate. The interest rate will reflect, among other factors, the level of market demand for such 2017A Bonds (including whether the Remarketing Agent is willing to purchase such 2017A Bonds for its own account). There may or may not be 2017A Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket 2017A Bonds tendered for purchase on such date at par and the Remarketing Agent may sell such 2017A Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of such 2017A Bonds at the remarketing price. In the event the Remarketing Agent owns any of the 2017A Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2017A Bonds on any date, including the date of determination of the interest rate on such 2017A Bonds, at a discount to par to some investors.

The Ability to Sell the 2017A Bonds Other Than through Tender Process May Be Limited. The Remarketing Agent may buy and sell the 2017A Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their 2017A Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the 2017A Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2017A Bonds other than by tendering such 2017A Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May be Removed, Resign or Cease Remarketing the 2017A Bonds Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

Liquidity Supported Bonds and Self-Liquidity Bonds

Designation of 2017A Bonds as Liquidity Supported Bonds. While the 2017A Bonds bear interest in the Daily Mode, the Paying Agent Agreement requires Metropolitan to designate all 2017A Bonds as either Self-Liquidity Bonds or Liquidity Supported Bonds. Upon the date of delivery of the 2017A Bonds in the Daily Mode, Metropolitan has initially designated the 2017A Bonds to be Liquidity Supported Bonds. The 2017A Bonds will continue to be Liquidity Supported Bonds unless and until (i) Metropolitan changes the 2017A Bonds to Self-Liquidity Supported Bonds as described below or in connection with a change in the Interest Mode on the 2017A Bonds to the Weekly Mode, Short-Term

Mode or Long Mode, or (ii) Metropolitan changes the Interest Mode of the 2017A Bonds to the Flexible Index Mode or the Index Mode, or (iii) Metropolitan converts the interest rate on the 2017A Bonds to a Fixed Interest Rate. In connection with any change in the Interest Mode of the 2017A Bonds to the Weekly Mode, Daily Mode (from a subsequent different Interest Mode), Short-Term Mode or Long Mode, Metropolitan will designate the 2017A Bonds either as Liquidity Supported Bonds or as Self-Liquidity Bonds.

Whether Metropolitan designates the 2017A Bonds as Liquidity Supported Bonds or Self-Liquidity Bonds will determine whether a Liquidity Provider or Metropolitan is responsible for the payment of the Purchase Price of tendered 2017A Bonds to the extent that remarketing proceeds are insufficient. While the 2017A Bonds are Liquidity Supported Bonds, a Liquidity Provider will bear that obligation in accordance with the terms of a Liquidity Facility and Metropolitan will have no liability to purchase Liquidity Supported Bonds that are tendered for purchase from any of its assets other than amounts from the sources described under “– Purchase and Remarketing of 2017A Bonds – *Sources of Funds for Purchase of Tendered 2017A Bonds.*”

Change in the Designation of the 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds. Metropolitan may elect to change the 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds by delivering a written direction to the other Notice Parties not later than ten (10) days before the effective date of the change to Self-Liquidity Bonds. The effective date of the change to Self-Liquidity Bonds will be a Business Day. The written direction of Metropolitan will specify (1) the effective date of the change to Self-Liquidity Bonds, and (2) if applicable, the date of delivery for the 2017A Bonds to be purchased (if other than the effective date) as described under “– Tender and Purchase of 2017A Bonds – Mandatory Tender for Purchase – *Mandatory Tender for Purchase of Liquidity Supported Bonds upon Termination, Expiration or Replacement of the Liquidity Facility or Change in Designation to Self-Liquidity Bonds.*” In addition, together with any such written direction, Metropolitan will include a form of notice that the Paying Agent is required to give to the Owners of such 2017A Bonds in connection with such change in designation of the 2017A Bonds to Self-Liquidity Bonds. The Paying Agent will give notice by Mail to the Owners of the 2017A Bonds (or, if such 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), together with the notice described under “– Tender and Purchase of 2017A Bonds – Notice of Mandatory Tender – *Notice of Mandatory Tender Upon Change in Designation to Liquidity Supported Bonds,*” of a change in the designation of the 2017A Bonds to Self-Liquidity Bonds not less than seven (7) days before the effective date of the change. The notice will state (i) the effective date of the change from Liquidity Supported Bonds to Self-Liquidity Bonds, and (ii) if applicable, that the 2017A Bonds are subject to mandatory tender for purchase on such effective date, setting forth the applicable Purchase Price.

Book-Entry Only System

Metropolitan will issue the 2017A Bonds as fully registered bonds in the name of Cede & Co., as nominee of DTC. The 2017A Bonds will be available to Beneficial Owners (as defined in APPENDIX D – “BOOK-ENTRY ONLY SYSTEM”) only under the book-entry system maintained by DTC. Beneficial Owners of 2017A Bonds will not receive physical certificates representing their interests in the 2017A Bonds. So long as the 2017A Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners will mean Cede & Co., and will not mean the ultimate purchasers or Beneficial Owners of the 2017A Bonds. Metropolitan will pay principal of and redemption premium, if any, and interest on the 2017A Bonds directly to DTC or Cede & Co. so long as DTC or Cede & Co. is the registered owner of the 2017A Bonds. Disbursements of such payments to DTC’s Direct Participants is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC’s Direct Participants and Indirect Participants. See APPENDIX D – “BOOK-ENTRY ONLY SYSTEM.”

None of Metropolitan, the Fiscal Agent or the Paying Agent will have any responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any Direct or Indirect Participant with respect to any beneficial ownership interest in the 2017A Bonds; (ii) the delivery to any Direct or Indirect Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the 2017A Bonds; (iii) the payment to any Direct or Indirect Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal of, premium, if any, or interest on, the 2017A Bonds; (iv) any consent given by DTC or its nominee as Owner; or (v) the selection by DTC or any Direct or Indirect Participant of any Beneficial Owners to receive payment if the 2017A Bonds are redeemed in part. See APPENDIX D – “BOOK-ENTRY ONLY SYSTEM.”

SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS

Security for the 2017A Bonds

The 2017A Bonds are special limited obligations of Metropolitan and will be payable as to principal, redemption premium, if any, and interest thereon solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues and the other funds, assets and security described under the Resolutions. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENT.”

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 EXPENSES – State Water Contract Obligations.” Payment of capital costs and some other payments under the State Water Contract and the Devil Canyon-Castaic Contract are subordinate to the obligation of Metropolitan for payment of Operation and Maintenance Expenditures and debt service on the 2017A Bonds, the Parity Bonds and the Parity Obligations. Accordingly, the debt service coverage on the 2017A 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 2017A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor taxing power of Metropolitan is pledged for the payment of the 2017A Bonds, the interest thereon or the redemption price thereof. The obligation to pay the principal of, redemption premium, if any, and interest on the 2017A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except Net Operating Revenues.

Rate Covenant

Metropolitan covenants in the Master Resolution that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System (defined in the Resolutions as the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water) which, after making allowances for

contingencies and error in estimates, will provide Operating Revenues, together with any Additional Revenues (*i.e.*, interest, profits and other income received from the investment of any moneys of Metropolitan and other revenues of Metropolitan (other than Operating Revenues) to the extent available to pay debt service on the 2017A Bonds, the Parity Bonds and the Parity Obligations), at least sufficient to pay the following amounts in the order set forth:

1. Operation and Maintenance Expenditures;
2. Interest on and any Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds and Parity Obligations as the same become due and payable;
3. All other payments required for compliance with the Master Resolution or any Supplemental Resolution; and
4. All other payments required to meet any other obligations of Metropolitan that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2017A 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”). In connection with its Build America Bonds, Metropolitan currently expects to receive cash subsidies from the United States Treasury (the “Interest Subsidy Payments”) equal to 35% of the interest payable on all such outstanding Build America Bonds less any Federal budget sequestration offsets as described in the following paragraph. 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 (“Interest Subsidy Payments”). 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. Interest Subsidy Payments processed in the federal fiscal year ended September 30, 2014 were reduced by the federal fiscal year 2014 sequestration rate of 7.2% and Interest Subsidy Payments processed in the federal fiscal year ended September 30, 2015 were reduced by the federal fiscal year 2015 sequestration rate of 7.3%. Interest Subsidy Payments processed in the federal fiscal year ended September 30, 2016 were reduced by the federal fiscal year 2016 sequestration rate of 6.8%, and Interest Subsidy Payments processed on or after October 1, 2016 and on or before September 30, 2017 are anticipated to be reduced by the federal fiscal year 2017 sequestration rate of 6.9%. 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 XIII C 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-Second Supplemental Resolution provides for the establishment of a Reserve Fund for Bonds issued thereunder to be funded in an amount equal to the Bond Reserve Requirement for such Bonds as set forth in the applicable bond purchase contract. Metropolitan has determined that the Bond Reserve Requirement for the 2017A Bonds will be established at \$0 pursuant to the Bond Purchase Contract (herein defined). **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 or drawn upon to pay principal of, redemption premium, if any, or interest on the 2017A Bonds.**

Parity Bonds and Parity Obligations

As of February 1, 2017, Metropolitan had \$4.06 billion aggregate principal amount of Bonds outstanding. See "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings." Metropolitan's outstanding Bonds include, among other things, Index Tender Bonds, Term Mode Bonds, Self-Liquidity Bonds and Build America Bonds, as more fully described in Appendix A under "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations" and "– Term Mode Bonds" and "– Build America Bonds."

Metropolitan has entered into two short-term revolving credit facilities that it secured as Parity Obligations. Under the short-term revolving credit facilities, Metropolitan may borrow, pay down and re-borrow an aggregate amount outstanding at any time of \$400 million. As of February 1, 2017, an aggregate principal amount of \$250 million was outstanding under the short-term revolving credit facilities. An additional draw of approximately \$50 million is expected by the end of June 2017. See Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – Short-Term Revolving Credit Facilities" for a description of these short-term revolving credit facilities.

Metropolitan has, and may in the future, enter into one or more revolving credit agreements for purposes of paying the purchase price of any Self-Liquidity Bonds. 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 EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – Wells Fargo Revolving Credit Agreement" 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 2017A Bonds, Parity Bonds and other Parity Obligations. The payments by Metropolitan are secured as described in, and the interest rate swap agreements entail risks to Metropolitan as described in, Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations – Interest Rate Swap Transactions."

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on a parity with the 2017A Bonds, the Parity Bonds and existing Parity Obligations, subject to the limitations, terms and conditions of the Master Resolution. See "– Additional Indebtedness" below and APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENT – THE MASTER RESOLUTION – Covenants – *Limits on Additional Debt.*"

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

Additional Indebtedness

Metropolitan covenants in the Master Resolution that no additional indebtedness evidenced by bonds, notes or any other evidences of indebtedness payable out of its Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2017A Bonds, Parity Bonds or Parity Obligations.

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

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

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

previously issued, or from additions recently placed in service, Additional Revenues and other funds specified in the Resolutions.

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

The Interest Subsidy Payments that Metropolitan expects to receive from the United States Treasury in connection with its previously issued and designated Build America Bonds do not constitute Operating Revenues under the Master Resolution and are not pledged for the payment of debt service on the Build America Bonds or the Parity Bonds and Parity Obligations. Such subsidy will, however, constitute Additional Revenues, which Metropolitan will use when determining whether it has satisfied the requirements set forth in the Master Resolution for the creation or incurrence of additional Bonds or Parity Obligations. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENT – 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 February 1, 2017, Metropolitan’s outstanding Bonds and other indebtedness, in the aggregate amount of \$4.58 billion, constituted approximately 0.18% of the fiscal year 2016-17 taxable assessed valuation of \$2,583 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, 2016 were \$6.68 billion. The aggregate amount of Bonds outstanding as of February 1, 2017 was \$4.23 billion.

Subordinate Obligations

Under the Resolutions, Metropolitan may issue bonds and other obligations payable from Net Operating Revenues junior and subordinate to the Bonds, including the 2017A Bonds, and the Parity Obligations, subject to the provisions of the Act. Metropolitan adopted Resolution 9199 on March 8, 2016 (the “Master Subordinate Resolution”), which authorizes Metropolitan to issue bonds (“Subordinate Bonds”) and other obligations secured with a pledge that is subordinate to the pledge securing the 2017A Bonds and other Parity Obligations. In December 2016, Metropolitan issued \$175 million Subordinate Water Revenue Bonds, 2016 Authorization Series A, which was the first series of bonds issued under the Master Subordinate Resolution. See Appendix A under the captions “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations.”

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. The final payment on the California Safe Drinking Water Revolving Fund Loan is scheduled for January 1, 2025. The loan payment obligation is subordinate to the Bonds, including the 2017A Bonds, and the Parity Obligations. The outstanding principal balance on the California Safe Drinking Water Revolving Fund Loan as of February 1, 2017 was \$8.6 million. See Appendix A under the captions “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations.”

Under some circumstances, some interest rate swap agreements are subject to early termination, in which event Metropolitan may be obligated to make a substantial payment to the applicable counterparty. Such termination payments are secured in some cases on a basis on parity with, and in other cases on a basis subordinate in payment priority to, the Bonds, including the 2017A Bonds, and the Parity Obligations. See Appendix A under the captions METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – 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 interest becoming due and payable on the next interest payment date for all such Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Bond Service Fund from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such account, (2) 110% of the aggregate amount of interest, estimated by the Treasurer of Metropolitan in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness (provided that such amount may be reduced and will be increased under certain circumstances, as set forth in the Resolutions), and (3) with respect to Outstanding Paired Obligations, such amount as will be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of Metropolitan for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, and (b)(1) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (2) one-twelfth of the aggregate yearly amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the Board irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. Such amount is subject to adjustment as set forth in the Resolutions, in the event Term Bonds are purchased from the Bond Service Fund, redeemed by Metropolitan or deposited by Metropolitan with the Fiscal Agent. No deposit need be made into the Bond Service Fund if (i) the amount contained therein is at least equal to the interest to become due and payable on the estimated interest payment dates falling within the next six months upon all of the Bonds issued under the Master Resolution and then Outstanding but excluding any moneys on deposit in the Interest

Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates, and (ii) there will 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, including obligations issued or incurred pursuant to the Master Subordinate Resolution.

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

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENT – THE MASTER RESOLUTION – Water Revenue Fund.”

THE LIQUIDITY FACILITY

The following summarizes certain provisions of the 2017A Liquidity Facility. Reference is made to such document, in its entirety, for the complete provisions thereof. The provisions of any Alternate Liquidity Facility may be different from those summarized below. Capitalized terms used under this heading “THE LIQUIDITY FACILITY” and not otherwise defined under this heading “THE LIQUIDITY FACILITY” shall have the meanings assigned to such terms in the Liquidity Facility.

General

Subject to the terms and conditions of the Liquidity Facility, the Liquidity Provider agrees from time to time during the Commitment Period to extend credit to Metropolitan by making Liquidity Advances to provide for the payment of the Purchase Price for (a) Eligible Bonds tendered or deemed

tendered on a Purchase Date and (b) Eligible Bonds require to be purchased on a Mandatory Purchase Date, in each case, to the extent remarketing proceeds are insufficient or not available therefor. The portion of any Liquidity Advance which provides for the payment of that portion of the Purchase Price paid for any Eligible Bonds constituting principal, which shall be in Authorized Denominations, purchased on any Purchase Date shall not exceed the Available Principal Commitment on such Purchase Date. The portion of any Liquidity Advance which provides for the payment of that portion of the Purchase Price paid for any Eligible Bonds constituting accrued but unpaid interest on such Eligible Bonds purchased on any Purchase Date shall not exceed the lesser of the accrued and unpaid interest on such Eligible Bonds to but excluding such date and the Available Interest Commitment on such Purchase Date. Any Eligible Bonds purchased with the proceeds of a Liquidity Advance shall thereupon constitute Bank Bonds and, from the date of such purchase and while they are Bank Bonds, such Liquidity Advance and such Bank Bonds shall bear interest at the “Bank Rate” defined in the Liquidity Facility and the Bank Bonds shall have other characteristics of Bank Bonds as set forth in the Liquidity Facility, in the Resolutions, the Paying Agent Agreement and in the 2017A Bonds. Amounts drawn under the Liquidity Facility may only be used to pay the Purchase Price of 2017A Bonds which are Eligible Bonds and may not be used to pay the principal of and interest on any Bonds of any other Series or for any other purpose. Amounts drawn under the Liquidity Facility that are not used to purchase Eligible Bonds shall be immediately returned to the Liquidity Provider.

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE LIQUIDITY PROVIDER TO PURCHASE ELIGIBLE BONDS TENDERED OR DEEMED TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE IMMEDIATELY TERMINATED OR SUSPENDED WITHOUT NOTICE. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE ELIGIBLE BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE. THE LIQUIDITY FACILITY DOES NOT GUARANTEE THE PAYMENT OF PRINCIPAL OF OR INTEREST OR REDEMPTION PREMIUM, IF ANY, ON THE 2017A BONDS IN THE EVENT OF NON-PAYMENT OF SUCH INTEREST, PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, BY METROPOLITAN. IN ADDITION, THE LIQUIDITY PROVIDER HAS NO OBLIGATION TO PAY ANY INTEREST DUE ON THE 2017A BONDS ON ANY INTEREST PAYMENT DATE UNLESS SUCH INTEREST IS DUE IN CONNECTION WITH A TENDER OR MANDATORY PURCHASE OF SAID 2017A BONDS. NO SERIES OF BONDS OTHER THAN THE 2017A BONDS ARE PAYABLE FROM THE LIQUIDITY FACILITY.

The “Available Commitment” under the Liquidity Facility is, as of any day, the sum of the Available Principal Commitment under such Liquidity Facility and the Available Interest Commitment under such Liquidity Facility, in each case as of such day. The “Available Principal Commitment” under the Liquidity Facility is initially \$80,000,000, representing an amount equal to the aggregate principal amount of the 2017A Bonds to be outstanding on the Closing Date (defined below). The Available Principal Commitment shall be adjusted from time to time as follows:

- (a) downward by the principal amount of 2017A Bonds redeemed, paid or converted to any interest rate mode other than the Daily Mode or the Weekly Mode,
- (b) downward by the principal amount of any Eligible Bonds purchased by the Liquidity Provider pursuant to the Liquidity Facility, and
- (c) upward by the principal amount of any Eligible Bonds theretofore purchased by the Liquidity Provider pursuant to the Liquidity Facility which are remarketed by the Remarketing Agent and for which the Liquidity Provider has received immediately available funds equal to the par amount thereof plus accrued interest;

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

provided, however, that the sum of (A) the Available Principal Commitment under the Liquidity Facility plus (B) the aggregate principal amount of Bank Bonds related to the 2017A Bonds shall never exceed \$80,000,000. Any adjustments to the Available Principal Commitment pursuant to clauses (a), (b), (c) or (d) above shall occur simultaneously with the occurrence of the events described in such clauses.

“Available Interest Commitment” under the Liquidity Facility is initially \$894,247, computed as thirty four (34) days’ interest on the Available Principal Commitment of the Liquidity Facility at an assumed rate of 12% per annum, computed on the basis of a year of 365 days and the actual days elapsed; which amount shall be adjusted from time to time as follows: (i) downward by an amount that bears the same proportion to such amount as the amount of any reduction in the Available Principal Commitment of the Liquidity Facility in accordance with clause (a), (b) or (d) of the Available Principal Commitment of such Liquidity Facility, described above, bears to the initial Available Principal Commitment of such Liquidity Facility and (ii) upward by an amount that bears the same proportion to such amount as the amount of any increase in the Available Principal Commitment of such Liquidity Facility in accordance with clause (c) of the Available Principal Commitment, described above, bears to the initial Available Principal Commitment of such Liquidity Facility; provided, however the Available Interest Commitment under the Liquidity Facility shall never exceed \$894,247. Any adjustments to the Available Interest Commitment shall occur simultaneously with any corresponding adjustments to the Available Principal Commitment.

The “Commitment Period” for the Liquidity Facility is the period commencing on March 1, 2017 (the “Closing Date”), to and including close of business on the earliest of (a) March 27, 2020, including any extension of such date pursuant to the Liquidity Facility; and if any such date is not a Business Day, the next preceding Business Day but not including the date of any early termination of the Available Commitment and of the Liquidity Provider’s obligation to purchase the 2017A Bonds pursuant to the Liquidity Facility (the “Expiration Date”), (b) the date on which all of the 2017A Bonds have been redeemed or paid in full, (c) the date on which the Available Commitment is terminated in its entirety, (d) the date on which the Liquidity Provider ceases to be required to purchase Eligible Bonds pursuant to the Liquidity Facility, (e) the first Business Day next succeeding the date on which the 2017A Bonds have been converted to bear interest at a rate of interest other than the Weekly Rate or the Daily Rate, and (f) the earlier of (A) the first (1st) Business Day next succeeding the date on which an Alternate Liquidity Facility is substituted for the Liquidity Facility and (B) the date on which an Alternate Liquidity Facility is substituted for the Liquidity Facility, provided, that the Liquidity Provider has honored any purchase of the 2017A Bonds in connection with such substitution.

Immediate Termination Events

The occurrence of any of the events described in paragraphs (a) through (i) below constitutes an “Immediate Termination Event” under the Liquidity Facility. Upon the occurrence of an Immediate Termination Event, the Commitment Period and the obligation of the Liquidity Provider to purchase Eligible Bonds shall immediately terminate without notice or demand and the Liquidity Provider may exercise the applicable remedies described under “– Remedies” below.

(a) Metropolitan shall fail to (i) pay when and as required to be paid (whether regularly scheduled, by scheduled maturity, required prepayment, acceleration or otherwise), any amount of principal of or interest or premium, if any, of any of the 2017A Bonds (including, without limitation, Bank Bonds other than Bank Bonds which are accelerated pursuant to the Liquidity Facility for any

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

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

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

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

(e) any Governmental Authority having jurisdiction over Metropolitan shall impose a debt moratorium, debt restructuring or comparable extraordinary restrictions on repayment when due and payable of the principal of or interest on the 2017A Bonds (including Bank Bonds) or Liquidity Advances or on all Debt of Metropolitan secured by or payable from Net Operating Revenues in a finding or ruling or through the enactment or adoption of legislation or the issuance of an executive order or of a judgment or decree; or

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

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

(h) (i) a senior officer of Metropolitan shall, in writing to the Paying Agent, the Liquidity Provider or otherwise, (A) claim that any of the provisions of the Liquidity Facility, the Resolutions, the Paying Agent Agreement or the 2017A Bonds that provide for (x) the payment of principal or interest on the Water Revenue Bonds (including Bank Bonds) or Parity Obligations for borrowed money evidenced by notes, bonds or other similar instruments (including the repayment of any Liquidity Advances) or (y) the pledge of and lien on the Net Operating Revenues securing the 2017A Bonds, Bank Bonds and Liquidity Advances under the Liquidity Facility are not valid or binding on Metropolitan, and/or (B) repudiate its obligations under any of the provisions of the Liquidity Facility, the Resolutions, the Paying Agent Agreement or the 2017A Bonds that provide for (x) the payment of principal or interest on the Water Revenue Bonds (including Bank Bonds) or Parity Obligations for borrowed money evidenced by notes, bonds or other similar instruments (including the repayment of any Liquidity Advances) or (y) the pledge of and lien on the Net Operating Revenues securing the 2017A Bonds, Bank Bonds and Liquidity Advances owed to the Liquidity Provider under the Liquidity Facility; or (ii) any court of competent jurisdiction or other governmental entity with jurisdiction to rule on the validity of the Liquidity Facility the Resolutions, the Paying Agent Agreement or the 2017A Bonds shall find or rule (in a final, non-appealable finding, judgment or other ruling) that (A) any provision in the Liquidity Facility, the Resolutions, the Paying Agent Agreement or the 2017A Bonds that provides for (x) the payment of principal of or interest on the Water Revenue Bonds (including Bank Bonds) or Parity Obligations for borrowed money evidenced by notes, bonds or other similar instruments (including the repayment of any Liquidity Advances) incurred or issued pursuant to the Resolutions or (y) the pledge of and lien on the Net Operating Revenues securing 2017A Bonds, Bank Bonds and Liquidity Advances thereunder, is null and void, not valid or not binding on Metropolitan or (B) any such provision shall, for any reason, cease to be valid and binding on Metropolitan; or (iii) any court of competent jurisdiction or other governmental entity with jurisdiction shall find or rule that the holders of the 2017A Bonds and Parity Obligations cease to have an effective pledge created or purported to be created by the Master Resolution; or

(i) each of Fitch, S&P and Moody's shall have (i) assigned a District Rating below "BBB-" (or its equivalent), in the case of Fitch or S&P, or "Baa3" (or its equivalent), in the case of Moody's, or (ii) withdrawn or suspended its District Rating for credit related reasons.

Events of Default

The occurrence of any of the events described in paragraphs (a) through (l) below constitutes an "Event of Default" under the Liquidity Facility. Upon the occurrence of an Event of Default, the Liquidity Provider may exercise the applicable remedies described under "- Remedies" below.

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

(b) Metropolitan shall fail to pay or cause to be paid when due (i) any amounts payable under the Liquidity Facility (other than as described in clause (a) under the caption “– Immediate Termination Events” above), or (ii) any other amount payable pursuant to the Liquidity Facility or the 2017A Bonds (including Bank Bonds) or the Fee Agreement with the Liquidity Provider; or

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

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

(e) the powers of Metropolitan shall be limited in any way that prevents Metropolitan from fixing, charging or collecting rates and charges for the use and services of the Water System in an amount sufficient to pay the 2017A Bonds (including Bank Bonds) and Liquidity Advances, the Water Revenue Bonds and Parity Obligations as they become due; or

(f) any of Fitch, S&P or Moody’s shall have (i) assigned a District Rating below “A–” (or its equivalent), in the case of Fitch or S&P, or “A3” (or its equivalent), in the case of Moody’s, or (ii) withdrawn (for reasons other than defeasance or redemption of the 2017A Bonds) or suspended a District Rating; or

(g) there shall be appointed or designated with respect to Metropolitan an entity such as an organization, board, commission, authority, agency or body to monitor or declare a financial emergency or similar state of financial distress with respect to Metropolitan, or there shall be declared by Metropolitan or by any legislative or regulatory body with competent jurisdiction over Metropolitan, the existence of a state of financial emergency or similar state of financial distress in respect of Metropolitan; or

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

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

(j) Metropolitan shall (A) fail to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Debt (other than Obligations under the Liquidity Facility and Debt specified in clause (c) under the caption “– Immediate Termination Events” above) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than \$10,000,000 and such failure shall continue for a period of

thirty (30) days after the earlier of (x) the Liquidity Provider giving Metropolitan written notice thereof and (y) the date on which such failure shall first become known to an Authorized Representative of Metropolitan; or (B) fail to observe or perform any other agreement or condition relating to any such other Debt or contained in any document evidence, securing or relating to any of the foregoing, or any other default or event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Debt (or a trustee or agent on behalf of such holder or holders) to cause with the giving of notice if required, such debt to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Debt to be made, prior to its stated maturity and such failure or other default or event shall continue for a period of thirty (30) days after the earlier of (x) the Liquidity Provider giving an Authorized Representative of Metropolitan written notice thereof and (y) the date on which such failure shall first become known to an Authorized Representative of Metropolitan;

(k) (i) Metropolitan shall initiate any legal proceedings to seek any adjudication that any of the provisions of the Liquidity Facility, the Resolutions, the Paying Agent Agreement or the 2017A Bonds that provide for (x) the payment of principal or interest on the 2017A Bonds, Bank Bonds or the Liquidity Advances or (y) the pledge of and lien on the Net Operating Revenues securing the 2017A Bonds, the Bank Bonds and the Liquidity Advances are not valid or binding on Metropolitan; or (ii) any material provision of the related Facility or any other Related Document, other than a provision described in clause (h) under the caption “– Immediate Termination Events” above, shall at any time for any reason cease to be valid and binding on Metropolitan, including, without limitation, as a result of any legislative or administrative action by a Governmental Authority with competent jurisdiction or shall be declared in a final non appealable judgment by any court with competent jurisdiction to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be publicly contested by Metropolitan; or

(l) a Tax Event shall occur.

Remedies

(a) Upon the occurrence and continuance of any Event of Default, the Liquidity Provider may:

(i) give written notice of such Event of Default to the Fiscal Agent, the Paying Agent, Metropolitan and the Remarketing Agent and request the Paying Agent to cause a mandatory purchase of the 2017A Bonds in accordance with the Paying Agent Agreement and the 2017A Bonds and prohibit the remarketing of the 2017A Bonds, thereby causing the Liquidity Provider’s obligations under the Liquidity Facility to terminate thirty (30) days after the Paying Agent’s receipt of such notice;

(ii) by written notice to Metropolitan, declare the outstanding amount of the Liquidity Advances under the Liquidity Facility to be immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are thereby expressly waived;

(iii) take any other action or remedy permitted by law or in equity to enforce the rights of the Liquidity Provider thereunder and under the 2017A Bonds and any Related Document; and/or

(iv) deliver written notice to Metropolitan and the Paying Agent that all Bank Bonds shall be subject to immediate mandatory redemption and upon delivery of such notice, the Bank Bonds shall be subject to immediate mandatory redemption.

(b) Upon the occurrence of any Immediate Termination Event, (i) the Commitment Period and the obligation of the Liquidity Provider to purchase Eligible Bonds shall immediately terminate without notice or demand, and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds; upon such Immediate Termination Event, the Liquidity Provider shall promptly give written notice of the same to the Paying Agent, Metropolitan and the Remarketing Agent; provided, that the Liquidity Provider shall incur no liability of any kind by reason of its failure to give such notice, and such failure shall in no way affect the termination of the Available Commitment and the Liquidity Provider's obligation to purchase Eligible Bonds pursuant to the Liquidity Facility; and (ii) the Liquidity Provider may require that all Obligations (other than Bank Bonds but including Liquidity Advances) become due and payable immediately, without demand therefor; provided, however, that (A) if and to the extent any Event of Default thereunder is deemed an "Event of Default" under the Resolutions permitting the acceleration of all Water Revenue Bonds pursuant thereto, then, in such event, the Liquidity Provider may require that all Bank Bonds become due and payable immediately, without demand therefor and/or (B) if an Immediate Termination Event of the type described in clause (d), (f), or (g) under the caption "-- Immediate Termination Events" above shall occur, all Obligations (other than Bank Bonds but including Liquidity Advances) shall automatically become due and payable without further action.

(c) Upon the occurrence of a Suspension Event resulting from an Event of Default described under subclause (i) of clause (k) under the caption "-- Events of Default" above, the Liquidity Provider's obligations to purchase Eligible Bonds shall be immediately suspended without notice or demand and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds until the Available Commitment is reinstated as described in this paragraph (c) under the caption "-- Remedies." Promptly upon the Liquidity Provider's obtaining knowledge of any such Suspension Event, the Liquidity Provider shall give written notice of the same to Metropolitan, the Paying Agent and Remarketing Agent of such suspension; provided, however, that the Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Liquidity Provider's obligations under the Liquidity Facility. If a court with jurisdiction to rule on the validity of the documents described in subclause (i) of clause (k) under the caption "-- Events of Default" above shall enter a final, nonappealable judgment that any such document is not valid and binding on Metropolitan, then the Available Commitment, the Commitment Period and the Liquidity Provider's obligation to purchase Eligible Bonds shall immediately terminate. If a court with jurisdiction to rule on the validity of such documents shall enter a final, nonappealable judgment that such documents are valid and binding on Metropolitan, the Liquidity Provider's obligations to purchase Eligible Bonds under the Liquidity Facility shall be automatically reinstated and the terms of the Liquidity Facility will continue in full force and effect (unless the Liquidity Provider's obligation to purchase Eligible Bonds shall otherwise have terminated or been suspended in accordance with the terms of the Liquidity Facility). Notwithstanding the foregoing, if, upon the earlier of the Expiration Date or the date which is three (3) years after the effective date of suspension of the Liquidity Provider's obligations as described under this paragraph (c) under the caption "-- Remedies," litigation is still pending or a judgment regarding the validity of the obligations described in subclause (i) clause (k) under the caption "-- Events of Default" above as is the subject of such Suspension Event has not been obtained, then the related Available Commitment, the related Commitment Period and the obligation of the Liquidity Provider to purchase Eligible Bonds shall at such time immediately terminate, and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds.

(d) Upon the occurrence of a Suspension Event resulting from a Default described in clause (g) under the caption "-- Immediate Termination Events" above, the Liquidity Provider's obligation to

purchase Eligible Bonds shall be suspended on the 60th day following the occurrence of the proceedings or case causing such Default described in clause (g) under the caption “– Immediate Termination Events” above (the “60-Day Window”) without notice or demand and thereafter the Liquidity Provider shall be under no obligation to purchase Eligible Bonds until such obligation is reinstated as described in this paragraph (d) under the caption “– Remedies.” Promptly upon the Liquidity Provider obtaining knowledge of any such Suspension Event, the Liquidity Provider shall give written notice of the same to Metropolitan, the Remarketing Agent and the Paying Agent; provided, however, that the Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Liquidity Provider’s obligations under the Liquidity Facility. If, within the 60-day Window following the occurrence of the proceedings or case causing such Default described in clause (g) under the caption “– Immediate Termination Events” above, a court with competent jurisdiction to rule on such proceedings or such case shall terminate such proceedings or case prior to such proceedings or case becoming an Immediate Termination Event, the Liquidity Provider’s obligations shall be automatically reinstated and the terms of the Liquidity Facility will continue in full force and effect (unless the Liquidity Provider’s obligation to purchase the 2017A Bonds thereunder shall otherwise have terminated or been suspended or in accordance with the terms of the Liquidity Facility).

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

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

THE LIQUIDITY PROVIDER

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

Citibank was originally organized on June 16, 1812, and now is a national banking association organized under the National Bank Act of 1864. Citibank is an indirect wholly owned subsidiary of Citigroup Inc. (“Citigroup”), a Delaware holding company.

The long-term ratings of Citibank and its consolidated subsidiaries are as follows:

<u>Rating Agency</u>	<u>Long-Term Rating</u>	<u>Short-Term Rating</u>	<u>Outlook</u>
Moody’s	A1	P-1	Stable
S&P	A	A-1	Positive
Fitch	A+	F1	Stable

Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world. As a national

bank, Citibank is a regulated entity permitted to engage only in banking and activities incidental to banking. Citibank is primarily regulated by the Office of the Comptroller of the Currency (the “Comptroller”), which also examines its loan portfolios and reviews the sufficiency of its allowance for credit losses.

Citibank’s deposits at its U.S. branches are insured by the Federal Deposit Insurance Corporation (the “FDIC”) and are subject to FDIC insurance assessments. The Liquidity Facility is not insured by the FDIC or any other regulatory agency of the United States or any other jurisdiction. Citibank may, under certain circumstances, be obligated for the liabilities of its affiliates that are FDIC-insured depository institutions.

Under U.S. law, deposits in U.S. offices and certain claims for administrative expenses and employee compensation against a U.S. insured depository institution which has failed will be afforded a priority over other general unsecured claims, including deposits in non-U.S. offices and claims under non-depository contracts in all offices, against such an institution in the “liquidation or other resolution” of such an institution by any receiver. Such priority creditors (including the FDIC, as the subrogee of insured depositors) of such FDIC-insured depository institution will be entitled to priority over unsecured creditors in the event of a “liquidation or other resolution” of such institution.

For further information regarding Citibank, reference is made to the Annual Report on Form 10-K of Citigroup and its subsidiaries for the year ended December 31, 2015, filed by Citigroup with the Securities and Exchange Commission (the “SEC”). Copies of Citigroup’s 10-K may be obtained, upon payment of a duplicating fee, by writing to the SEC at 100 F Street, N.E., Washington, D.C. 20549. In addition, Citigroup’s 10-K is available at the SEC’s web site (<http://www.sec.gov>).

In addition, Citibank submits quarterly to the Comptroller certain reports called “Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices” (“Call Reports”). The Call Reports are on file with, and publicly available at, the Comptroller’s offices at 250 E Street, SW, Washington, D.C. 20219 and are also available on the web site of the FDIC (<http://www.fdic.gov>). Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules at the end of and for the period to which the report relates.

Any of the reports referenced above are available upon request without charge from Citi Document Services by calling toll-free at (877) 936-2737 (outside the United States at (716) 730-8055), by e-mailing a request to docservice@citi.com or by writing to: Citi Document Services, 540 Crosspoint Parkway, Getzville, New York 14068.

The information contained under this caption “THE LIQUIDITY PROVIDER” in this Official Statement relates to and has been obtained from Citibank. The information concerning Citibank contained herein is furnished solely to provide limited introductory information regarding Citibank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Metropolitan is a metropolitan water district created in 1928 by a vote of the electorates of eleven southern California cities under authority of the Act to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member agencies. The members of Metropolitan are not required to purchase water from Metropolitan. Metropolitan’s service area comprises approximately 5,200 square miles and includes all or portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. For a listing of the members and general information on

Metropolitan's service area, see APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA." For a discussion of selected demographic and economic information with respect to Metropolitan's service area, see APPENDIX E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA." For information on the finances and operations of Metropolitan, see Appendix A and Appendix B.

OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO

Operating Revenues

Water 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," "– Rate Structure" and "– Other Charges." In meeting the requirements of the Resolutions related to rates and additional obligations, Metropolitan may include in its calculations, to the extent available, revenues which include, among other things, investment income and income from the sale of energy from Metropolitan's hydroelectric power recovery plants and Interest Subsidy Payments that may be received by Metropolitan in connection with any existing and future "Build America Bonds." No assurances are provided that Metropolitan will receive all or any portion of the Interest Subsidy Payments, which are subject to legislative changes by the United States Congress and conditioned upon Metropolitan's compliance with certain covenants with respect to the Build America Bonds, including the use and investment of proceeds thereof and the use of property financed thereby. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017A 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 2017A 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 2017A Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS." See also APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENT." For information on Metropolitan's revenues and expenses, including historical and projected revenues and expenditures, see Appendix A under the captions "METROPOLITAN REVENUES," "METROPOLITAN EXPENSES," and "HISTORICAL AND PROJECTED REVENUES AND EXPENSES." See also Metropolitan's financial statements contained in Appendix B.

Existing 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 2017A Bonds, the Parity Bonds or the Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS – Additional Indebtedness."

Metropolitan has issued Parity Bonds (which will include the 2017A Bonds) pursuant to the applicable Resolutions, which are outstanding in the amounts listed in Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Revenue Bonds." Principal of and interest on the 2017A Bonds will be payable from Net Operating Revenues on 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 2017A 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. Metropolitan has and may also issue or incur Subordinate Bonds and other obligations junior and subordinate to the 2017A Bonds, subject to the limitations in the Act. Metropolitan's 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 parity with the Outstanding Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS – Additional Indebtedness."

On October 13, 2015, Metropolitan's Board adopted Ordinance 149 (the "2015 Revenue Bond Ordinance") determining that the interests of Metropolitan required the use of up to an aggregate principal amount of \$500,000,000 of revenue bonds to fund a portion of its capital expenditures. In December 2015, Metropolitan issued \$208,255,000 principal amount of its Water Revenue Bonds, 2015 Authorization Series A under the 2015 Revenue Bond Ordinance. In December 2016, Metropolitan issued its \$175,000,000 Subordinate Water Revenue Bonds, 2016 Authorization Series A under the 2015 Revenue Bond Ordinance. On January 10, 2017, the Board adopted the Twenty-Second Supplemental Resolution authorizing the issuance of the 2017A Bonds under the 2015 Revenue Bond Ordinance to fund a portion of Metropolitan's capital expenditures through fiscal year 2017-18. The issuance of the balance of the \$500,000,000 aggregate principal amount of revenue bonds under the 2015 Revenue Bond Ordinance would be subject to board approval in future supplemental bond authorizations. The Board may from time to time in the future adopt other ordinances authorizing the issuance of additional revenue bonds, including Parity Bonds and/or Subordinate Bonds.

As described herein, Metropolitan currently expects to make an additional draw of approximately \$50 million under its existing short-term revolving credit facilities by the end of June 2017, with such amount to be deposited in Metropolitan's unrestricted financial reserves. See Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – Short-Term Revolving Credit Facilities."

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 EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations."

Debt Service Requirements

The following table shows the estimated annual debt service requirements for Metropolitan's outstanding Parity Bonds, the 2017A Bonds, and Subordinate Bonds. Such debt service is not net of the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with its outstanding Build America Bonds, subject to sequestration as described above under "SECURITY AND SOURCES OF PAYMENT FOR THE 2017A BONDS – Rate Covenant."

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

Fiscal Year Ending June 30	Outstanding Parity Bonds Debt Service (1)(2)(3)	2017A Bonds		Total Parity Bonds Debt Service (1)(2)(3)	Outstanding Subordinate Bonds Debt Service (4)	Total (5)
		Principal	Interest (4)			
2017	\$ 305,846,558	\$ --	\$ 360,000	\$ 306,206,558	\$ 1,398,082	\$ 307,604,640
2018	324,277,440	--	1,440,000	325,717,440	3,150,000	328,867,440
2019	318,228,876	--	1,440,000	319,668,876	3,150,000	322,818,876
2020	312,237,437	--	1,440,000	313,677,437	3,150,000	316,827,437
2021	303,238,733	--	1,440,000	304,678,733	3,150,000	307,828,733
2022	299,246,212	--	1,440,000	300,686,212	3,150,000	303,836,212
2023	294,249,702	--	1,440,000	295,689,702	3,150,000	298,839,702
2024	294,255,801	--	1,440,000	295,695,801	3,150,000	298,845,801
2025	288,254,505	--	1,440,000	289,694,505	3,150,000	292,844,505
2026	287,538,742	--	1,440,000	288,978,742	3,150,000	292,128,742
2027	287,539,707	--	1,440,000	288,979,707	3,150,000	292,129,707
2028	283,551,724	--	1,440,000	284,991,724	3,150,000	288,141,724
2029	263,271,082	--	1,440,000	264,711,082	3,150,000	267,861,082
2030	257,106,589	--	1,440,000	258,546,589	3,150,000	261,696,589
2031	248,663,351	--	1,440,000	250,103,351	3,150,000	253,253,351
2032	249,638,525	--	1,440,000	251,078,525	3,150,000	254,228,525
2033	252,024,324	--	1,440,000	253,464,324	3,150,000	256,614,324
2034	252,276,380	--	1,440,000	253,716,380	3,150,000	256,866,380
2035	252,536,620	--	1,440,000	253,976,620	3,150,000	257,126,620
2036	252,113,702	--	1,440,000	253,553,702	3,150,000	256,703,702
2037	251,071,683	--	1,440,000	252,511,683	3,150,000	255,661,683
2038	192,499,670	--	1,440,000	193,939,670	3,150,000	197,089,670
2039	127,879,595	--	1,440,000	129,319,595	3,150,000	132,469,595
2040	125,886,198	--	1,440,000	127,326,198	3,150,000	130,476,198
2041	124,887,145	--	1,440,000	126,327,145	3,150,000	129,477,145
2042	4,745,900	9,500,000	1,283,250	15,529,150	35,856,293	51,385,443
2043	4,744,100	9,675,000	1,109,363	15,528,463	36,093,678	51,622,140
2044	4,745,700	9,850,000	932,325	15,528,025	36,340,350	51,868,375
2045	4,745,400	10,030,000	752,055	15,527,455	36,586,025	52,113,480
2046	4,743,000	10,215,000	568,463	15,526,463	36,845,185	52,371,648
2047	--	15,225,000	301,928	15,526,928	--	15,526,928
2048	--	15,505,000	23,258	15,528,258	--	15,528,258
Total (5)	<u>\$6,472,044,401</u>	<u>\$80,000,000</u>	<u>\$39,890,640</u>	<u>\$6,591,935,041</u>	<u>\$258,719,612</u>	<u>\$6,850,654,653</u>

Source: Metropolitan

- (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 \$550 million of variable rate Bonds (excluding the 2017A Bonds), interest is calculated at an assumed interest rate of 1.80% per annum. Actual rates may differ from those set forth in this footnote. Does not include any debt service for the Revolving Credit Agreements and Short-Term Revolving Credit Facilities. See Appendix A under the captions "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – Short-Term Revolving Credit Facilities" and "– Wells Fargo Revolving Credit Agreement."
- (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 Metropolitan's Water Revenue Bonds 2010 Authorization, Series A (Taxable Build America Bonds), and have not been reduced to reflect the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with such Bonds.
- (3) Assumes each Series of Term Mode Bonds are remarketed to a variable rate after the initial call protection date for such Series. Interest after the initial call protection date is calculated at an assumed interest rate of 1.80% per annum.
- (4) Interest on the outstanding Subordinate Bonds, which are variable rate bonds, is calculated at an assumed interest rate of 1.80% per annum.
- (5) Totals are rounded.

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 2017A 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.

Financial Reserve Policy

For a summary of Metropolitan’s financial reserve policy and its unrestricted reserves and other related matters, see “METROPOLITAN REVENUES – Financial Reserve Policy” in Appendix A.

Metropolitan’s unrestricted reserves as of June 30, 2016 were \$475 million on a modified accrual basis. This amount does not include funds held in the Exchange Agreement Set-Aside Fund related to the San Diego County Water Authority litigation. For a description of such litigation see “METROPOLITAN REVENUES – Litigation Challenging Rate Structure” 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 EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

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

ACCOUNTING AND BUDGET MATTERS

Accounting Policies

Metropolitan operates as a utility enterprise. A summary of Metropolitan’s significant accounting policies is contained in Note 1 to Metropolitan’s full accrual basis financial statements for the Fiscal Years ended June 30, 2016 and June 30, 2015. See Appendix B.

Budgetary Accounting Method

Metropolitan’s budgeting and budgetary financial reporting is presented using a modified accrual basis. The modified accrual basis of accounting that Metropolitan uses varies from the full accrual basis

of accounting utilized in Metropolitan's audited annual financial statements in the following respects: depreciation and amortization are not recorded and payments of debt service are recorded when due and payable. Under this modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus, water sales revenues are recognized in the month the water is sold and expenses are recognized when goods have been received and services have been rendered. See Appendix A under the captions "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES."

Financial Statements

The Basic Financial Statements of Metropolitan for the Fiscal Years ended June 30, 2016 and June 30, 2015 and Basic Financial Statements for the Six Months Ended December 31, 2016 and 2015 (Unaudited) are included in Appendix B. The Financial Statements for the Fiscal Years ended June 30, 2016 and June 30, 2015 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 14, 2016, 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 notes to such financial statements set forth in Appendix B is integral to an understanding of such information. No independent auditor has audited the financial tables or other data included in this Official Statement, other than the audited financial statements for the Fiscal Years ended June 30, 2016 and June 30, 2015 included in Appendix B.

Budget System

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

RISK FACTORS

The ability of Metropolitan to pay principal of and interest on the 2017A 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 2017A Bonds are summarized below. The following description of risks is not an exhaustive list of the risks associated with the purchase of the 2017A 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 2017A 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 2017A 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 2017A Bonds, redemption premium, if any, and the interest thereon. The obligation to pay the principal, redemption premium, if any, and interest on the 2017A 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 2017A Bonds and all other Outstanding Bonds and reimburse the Liquidity Provider pursuant to the Liquidity Facility. 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 describes its water supply in more detail in Appendix A under the caption "METROPOLITAN'S WATER SUPPLY." The demand for supplemental supplies is dependent on water use at the retail consumer level and the amount of locally supplied water. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales. See "REGIONAL WATER RESOURCES – Local Water Supplies" in Appendix A. In recent years supplies and demands have been affected by drought, water use restrictions, economic conditions, weather conditions and environmental laws, regulations and judicial decisions, as described below. Future water sales will be subject to variability due to these and other factors.

Water Supply Shortages. Metropolitan's principal sources of water are the State Water Project and the Colorado River, both of which are subject to drought conditions that in recent years have contributed to lower overall water deliveries to Metropolitan. While Metropolitan plans and manages its supplies to account for normal occurrences of drought conditions, recent drought conditions and court-ordered restrictions in connection with the State Water Project, including but not limited to restrictions under the Federal and California Endangered Species Acts (the "ESAs"), have placed additional limitations on Metropolitan's ability to obtain and deliver water supplies to its member agencies. See Appendix A under the caption "METROPOLITAN'S WATER SUPPLY – Endangered Species Act and Other Environmental Considerations – Endangered Species Act Considerations." For additional information regarding the impact of drought conditions on Metropolitan's water supply, see Appendix A under the captions "METROPOLITAN'S WATER SUPPLY" and "CONSERVATION AND WATER SHORTAGE MEASURES." Metropolitan may obtain supplies to meet demands during water supply shortages by, among other things, drawing on its stored water supplies and pursuing additional water transfers. See Appendix A under the captions "METROPOLITAN'S WATER SUPPLY – Water Transfer, Storage and Exchange Programs." If Metropolitan anticipates that supplies will be insufficient to meet demands, Metropolitan may allocate available supplies among its member agencies pursuant to its Water Supply Allocation Plan. See Appendix A under the caption "CONSERVATION AND WATER SHORTAGE MEASURES – Water Supply Allocation Plan."

Economic Conditions. 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 or Colorado River operations and Metropolitan’s available water supplies. See Appendix A under the caption “METROPOLITAN’S WATER SUPPLY – Endangered Species Act and Other Environmental Considerations.”

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 “SECURITY AND SOURCES OF PAYMENT FOR THE 2017A Bonds – Rate Covenant.” To address supply shortages due to prolonged drought conditions and environmental restrictions, Metropolitan may pursue additional water transfers and investments in capital projects. However, these actions and expenditures may not result in reliable alternate supplies of water at costs that, together with other available supplies and storage, will generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017A 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 and areas of potential liquefaction and landslide. Earthquakes, wildfires or other natural disasters could interrupt operation of the Water System and thereby interrupt the ability of Metropolitan to generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. See Appendix A 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 2017A Bonds have limited remedies and, except for limited circumstances, the Owners of the 2017A Bonds do not have the right to accelerate the payment of principal of or interest on the 2017A Bonds. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENT – THE MASTER RESOLUTION – Defaults and Remedies under the Master Resolution.”

In addition, the rights of the Owners of the 2017A Bonds are subject to the limitations on legal remedies against public entities in the State of California, 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 2017A Bonds of the exclusion of interest thereon from gross income for federal income tax purposes. See “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 2017A Bonds or the power and authority of Metropolitan to issue the 2017A Bonds, or (c) the authority of Metropolitan to fix, charge and collect rates for the sale of water by Metropolitan as provided in the Resolutions.

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

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 Stradling Yocca Carlson & Rauth, a Professional Corporation, and Schiff Hardin LLP, 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 2017A 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 on the 2017A Bonds is exempt from State of California personal income tax. Co-Bond

Counsel notes that, with respect to corporations, interest on the 2017A Bonds may be included as an adjustment in calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

Co-Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2017A Bonds is based upon certain representations of fact and certifications made by Metropolitan, the Underwriter and others and is subject to the condition that Metropolitan complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the 2017A Bonds to assure that interest on the 2017A 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 on the 2017A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2017A Bonds. Metropolitan will covenant to comply with all such requirements.

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 2017A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2017A Bonds might be affected as a result of such an audit of the 2017A Bonds (or by an audit of similar municipal 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 2017A Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2017A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2017A 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 INTEREST ON THE 2017A BONDS OR THE MARKET VALUE OF THE 2017A 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 2017A BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2017A BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE 2017A BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR THAT SUCH INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2017A 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 2017A BONDS.

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, the Paying Agent Agreement and the Tax Certificate relating to the 2017A 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 with respect to any 2017A 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 Schiff Hardin LLP.

Although Co-Bond Counsel will render an opinion that interest on the 2017A Bonds 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 2017A Bonds may otherwise

affect the tax liability of certain persons. Co-Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2017A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2017A Bonds.

A copy of the proposed form of opinion of Co-Bond Counsel for the 2017A Bonds is set forth in Appendix F.

UNDERWRITING

The 2017A Bonds are being purchased by Citigroup Global Markets Inc. (the “Underwriter”), pursuant to and subject to the conditions to be set forth in the Bond Purchase Contract between Metropolitan and the Underwriter (the “Bond Purchase Contract”). Subject to the terms of the Bond Purchase Contract, the Underwriter will purchase the 2017A Bonds at an aggregate purchase price of \$79,910,000, which represents the principal amount of the 2017A Bonds of \$80,000,000, less an Underwriter’s discount of \$90,000. The Underwriter is obligated to purchase all of the 2017A Bonds if it purchases any 2017A Bonds. The Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the 2017A Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

Citigroup Global Markets Inc., the Underwriter of the 2017A Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the 2017A Bonds.

CERTAIN RELATIONSHIPS

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

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for Metropolitan, for which they received or will receive customary fees and expenses. An affiliate of the Underwriter serves as an interest rate swap provider to Metropolitan. The Underwriter is also serving as remarketing agent for the 2017A Bonds. See “DESCRIPTION OF THE 2017A BONDS – Remarketing Agent.” In addition, an affiliate of the Underwriter is the Liquidity Provider for the 2017A Bonds. See “THE LIQUIDITY PROVIDER.”

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

MUNICIPAL ADVISOR

Metropolitan has retained Public Resources Advisory Group, Los Angeles, California, as municipal advisor (the “Municipal Advisor”) in connection with the issuance of the 2017A Bonds. The Municipal Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to Metropolitan, with respect to accuracy and completeness of disclosure of such information. The Municipal Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement.

LEGAL MATTERS

Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, and Schiff Hardin LLP, San Francisco, California, Co-Bond Counsel to Metropolitan, will render their opinion with respect to the 2017A Bonds, substantially in the form set forth in APPENDIX F – “FORM OF CO-BOND COUNSEL OPINION.” Co-Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for Metropolitan by its General Counsel, for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and for the Liquidity Provider by its counsel, Kutak Rock LLP. Norton Rose Fulbright US LLP is acting as Disclosure Counsel to Metropolitan in connection with the issuance of the 2017A Bonds.

RATINGS

Moody’s Investors Service (“Moody’s”), S&P Global Ratings (“S&P”), and Fitch Ratings (“Fitch”) have assigned the 2017A Bonds their long-term ratings of “Aa1,” “AAA” and “AA+,” respectively, and their short-term ratings of “VMIG 1,” “A-1” and “F1,” based in part on the issuance of the Liquidity Facility by the Liquidity Provider. Such credit ratings reflect only the views of such organizations and any desired explanation of the significance of such credit ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor’s, 55 Water Street, New York, New York 10041; and Fitch Ratings, 33 Whitehall Street, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Such credit ratings may not continue for any given period and may be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such credit ratings could have an adverse effect on the market price of the 2017A 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 2017A Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan will covenant for the benefit of Owners and Beneficial Owners of the 2017A Bonds to provide certain financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notice Events”) in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. The Annual Reports and the notices of Notice Events will be filed with the EMMA System. These covenants will be made to assist the Underwriter of the 2017A Bonds in complying with the Rule. See APPENDIX G – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.” The Continuing Disclosure Undertaking includes the following change in the description of the Annual Financial Information (as defined in Appendix G) to be included in Metropolitan’s Annual Reports with respect to the 2017A Bonds from that included in Metropolitan’s prior continuing disclosure undertakings: the two tables entitled “Summary of Receipts by Source” and “Summary of Expenditures by Source” have been renamed “Summary of Revenues by Source” and “Summary of Expenses by Source,” respectively, to reflect the current presentation of such tables in Appendix A on a modified accrual basis (rather than a cash basis) consistent with the modified accrual basis of accounting utilized in other tables of financial information in Appendix A.

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

MISCELLANEOUS

The terms of the 2017A Bonds are set forth in the Resolutions and the respective Paying Agent Agreement. Copies of such documents may be obtained from the office of the Assistant General Manager/Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012, telephone (213) 217-7121. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Official Statement may be directed to the Assistant General Manager/Chief Financial Officer.

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

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, 2016. 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 “–Other Charges” in this Appendix A.

The following table lists the 26 member agencies of Metropolitan.

<u>Municipal Water Districts</u>		<u>Cities</u>		<u>County</u> <u>Water Authority</u>
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 the Board and asserting other claims. See “METROPOLITAN REVENUES–Litigation Challenging Rate Structure” in this Appendix A.

Service Area

Metropolitan’s service area comprises approximately 5,200 square miles and includes 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 18.8 million people lived in Metropolitan’s service area in 2016, 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 2013, 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 economy of Metropolitan’s service area is exceptionally diverse. In 2015, the economy of the six counties which contain Metropolitan’s service area had a gross domestic product larger than all but eleven 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, made up of representatives from all of Metropolitan's member agencies. Each member public agency is entitled to have at least one representative on the Board, plus an additional representative for each full five percent of the total assessed valuation of property in Metropolitan's service area that is within the member public agency. Changes in relative assessed valuation do not terminate any director's term. Accordingly, the Board may, from time to time, have more or fewer than 38 directors.

The Board includes business, professional and civic leaders. Directors are appointed by member agencies in accordance with those agencies' processes. They serve on the Board without compensation from Metropolitan. Voting is based on assessed valuation, with each member agency being entitled to cast one vote for each \$10 million or major fractional part of \$10 million of assessed valuation of property within the member agency, as shown by the assessment records of the county in which the member agency is located. The Board administers its policies through the Metropolitan Water District Administrative Code (the "Administrative Code"), which was adopted by the Board in 1977. The Administrative Code is periodically amended to reflect new policies or changes 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 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 her current 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 bachelor's degree in civil engineering from the University of Hawaii and a master's degree in civil/environmental engineering from Stanford University.

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 U.S. Bureau of Reclamation (“Bureau of Reclamation”), retiring from the Bureau of Reclamation 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 was appointed the Interim Assistant General Manager/Chief Administrative Officer in July 2015 and is

responsible for the strategic direction and management of Metropolitan's administrative functions. His primary responsibilities include managing human resources, information technology, real property 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, Assistant General Manager/Chief External Affairs Officer– Ms. Zinke was appointed Assistant General Manager in January 2016. She is responsible for Metropolitan's communications, business outreach, education and legislative matters. She joined Metropolitan in 2009 as Manager of the Legislative Services Section. Before coming to Metropolitan, Ms. Zinke was the Manager of Governmental and Legislative Affairs at the Calleguas Municipal Water District for nearly 10 years, where she received recognition for her significant contributions to the Association of California Water Agencies, the Ventura County Special Districts Association and the Association of Water Agencies of Ventura County. During her tenure at Calleguas, she was named Chair of the Ventura County Watersheds Coalition and appointed by then-Secretary of Resources Mike Chrisman to the State Watershed Advisory Committee. Prior to her public service, she worked in the private sector as the Executive Officer and Senior Legislative Advocate for 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 January 1, 2017 was 1,765, of whom 1,223 were represented by AFSCME Local 1902, 95 by the Supervisors Association, 294 by the Management and Professional Employees Association and 129 by the Association of Confidential Employees. The remaining 24 employees are unrepresented. The four bargaining units represent 99 percent of Metropolitan's employees. The Memorandum of Understanding ("MOU") with each of the Association of Confidential Employees, the Management and Professional Employees Association and AFSCME Local 1902 covered the period January 1, 2011 through December 31, 2016. The MOU with the Supervisors Association covered the period September 13, 2011 to December 31, 2016. Although the contracts with the bargaining units are expired, the provisions of such contracts will govern until a successor contract is negotiated. The Board authorized the General Manager to exercise discretion under Administrative Code Section 6101(k) to enter into a successor MOU with the Management and Professional Employees Association on February 14, 2017. Negotiations with the remaining bargaining units are underway and are currently expected to be completed in early 2017.

Risk Management

Metropolitan is exposed to various risks of loss related to the design and construction of facilities, and the treatment and delivery of water. With the assistance of third party claims administrators, Metropolitan is self-insured for 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 coverages such as directors' and officers' liability, fiduciary liability and aircraft hull and liability coverage.

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

Information Security

Metropolitan has adopted and maintains an active Information Security program ("ISP") that includes comprehensive policies and procedures reviewed annually by its internal Information Security Team, Audit and independent third party auditors and consultants. Metropolitan has appointed an Information Security Manager who is responsible for overseeing the annual review of the ISP and its alignment with the strategic plan and direction of Metropolitan. Metropolitan's policies and procedures are consistent with public agency standards as well as staying aligned with governance, risk, and compliance. All Metropolitan users are required to participate in Metropolitan's Information Security education and awareness training. Metropolitan's Information Security Team is responsible for providing guidance and education on the implementation of new technologies based on Metropolitan's ISP as well as overseeing the monitoring of potential threats and vulnerabilities, utilizing and executing security controls to validate policy enforcement, protecting against virus and malware attacks, and investigating any potential unauthorized activity on Metropolitan's network.

METROPOLITAN'S WATER SUPPLY

General

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

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

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

the states of Colorado, Utah, and Wyoming. Although precipitation is primarily observed in the winter and spring, summer storms are common and can affect water supply conditions.

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

Current Water Conditions

Following the drought period from 2012-2015, current hydrologic conditions have improved. As of February 1, 2017, the northern Sierra precipitation was 197 percent of normal with a snowpack accumulation that was 140 percent of normal. Lake Oroville, the principal State Water Project reservoir, began flood control releases in early January. See “–Recent Events at Oroville Dam” below. On January 18, 2017, the California Department of Water Resources (“DWR”) notified State Water Contractors that its calendar year 2017 allocation estimate to State Water Contractors was 60 percent of contracted amounts, or 1,146,900 acre-feet for Metropolitan. (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.) See “–State Water Project.”

As of February 1, 2017, the Upper Colorado River Basin snowpack measured 156 percent of normal and total system storage in the Colorado River Basin was 49 percent of capacity. As of such date, the projected base supply of Colorado River water in calendar year 2017 was estimated to be 960,000 acre-feet. See “–Colorado River Aqueduct.”

See also “–Storage Capacity and Water in Storage.”

Recent Events at Oroville Dam

Oroville Dam, the earthfill embankment dam on the Feather River which impounds Lake Oroville, is operated by DWR as a facility of the State Water Project. On February 7, 2017, the main flood control spillway at Oroville Dam, a gated and concrete lined facility, experienced significant damage as DWR increased releases to 55,000 cubic feet per second to manage higher inflows driven by continued precipitation in the Feather River basin. Subsequently, DWR halted releases at the main spillway to inspect the damage and conduct flow tests. After testing, the main spillway was returned to service on February 8 at a reduced flow rate to offset inflows into Lake Oroville. On February 11, the water elevation in Lake Oroville reached 901 feet, leading water to flow over the emergency spillway structure, an ungated, 1,730 foot long concrete barrier located adjacent to and north of the main flood control spillway structure. Releases from the emergency spillway flow uncontrolled down an earthen hillside to the Feather River. On February 12, erosion began to progress up the right side of the emergency spillway. Concerns about the erosion at the emergency spillway prompted DWR to increase releases through the damaged main spillway and led the Butte County Sheriff to evacuate downstream communities for two days to ensure the safety of the residents. As of February 14, water levels in Lake Oroville were 13 feet below the crest of the emergency spillway and the mandatory evacuation order was lifted. DWR has begun repairs to the erosion areas below the emergency spillway. As of February 15, 2017, the cause of the damage to the main spillway was unknown.

The State has requested federal emergency funding to help offset costs related to the response efforts. The Federal Emergency Management Agency has approved the State's request for federal assistance.

Following the rainy season, the spillways will be repaired on a more permanent basis in preparation for the following winter. DWR's initial assessments indicate costs may range from \$100-200 million. These estimates are subject to revision as more detailed information becomes known. Metropolitan is unable to assess at this time what costs, if any, it will incur as a State Water Contractor, associated with the spillway repairs.

State Water Project water allocations to State Water Contractors for calendar year 2017 are currently estimated to be 60 percent of contracted amounts. In spite of the damage to the main spillway and the unknowns associated with DWR's corresponding repair plan, the State Water Project allocation is expected to increase from the current estimate of 60 percent. If realized, this would result in an allocation that is higher than average, and likely higher than any allocation since 2011. Nonetheless, future water supplies will be primarily dependent on hydrology.

Integrated Water Resources Plan

Overview. The Integrated Water Resources Plan ("IRP") is Metropolitan's principal water resources planning document. Metropolitan, its member agencies, subagencies and groundwater basin managers developed their first IRP as a long-term planning guideline for resources and capital investments. The purpose of the IRP was the development of a portfolio of preferred resources to meet the water supply reliability and water quality needs for the region in a cost-effective and environmentally sound manner. The first IRP was adopted by the Board in January 1996 and has been subsequently updated in 2004, 2010 and 2015.

On January 12, 2016, Metropolitan's Board adopted the most recent IRP update (the "2015 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 2015 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 2015 IRP Update seeks to provide regional reliability through 2040 by stabilizing Metropolitan's traditional imported water supplies and continuing to develop additional conservation programs and local resources, with an increased emphasis on regional collaboration. It also advances long-term planning for potential future contingency resources, such as storm water capture and seawater desalination.

Specific projects that may be developed by Metropolitan in connection with the implementation of the 2015 IRP Update will be subject to future Board consideration and approval, as well as environmental and regulatory documentation and compliance. The 2015 IRP Update and associated materials are available on Metropolitan's website at: <http://www.mwdh2o.com/AboutYourWater/Planning/Planning-Documents/Pages/default.aspx>. The information set forth on Metropolitan's website is not incorporated by reference.

An Adaptive Management Strategy. Adaptive water management, as opposed to a rigid set of planned actions over the coming decades, is the most nimble and cost-effective manner for Metropolitan and local water districts throughout Southern California to effectively prepare for the future. An adaptive management approach began to evolve with Metropolitan's first IRP in 1996, after drought-related shortages in 1991 prompted a rethinking of Southern California's long-term water strategy. Reliance on imported supplies to meet future water needs has decreased steadily over time, replaced by plans for local actions to

meet new demands. The 2015 IRP Update continues to build a robust portfolio approach to water management.

The following paragraphs describe the goals, approaches and targets for each of the resource areas that are needed to ensure reliability under planned conditions.

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

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

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

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

Local Water Supplies. Local supplies are a significant and growing component to the region’s diverse water portfolio. While the extent to which each member agency’s water supply is provided by imported water purchased from Metropolitan varies, in the aggregate, local supplies can provide over half of the region’s water in a given year, and the maintenance of these supplies remain an integral part of the IRP. Similar to water conservation, local supplies serve the important function of reducing demands for imported water supplies and thereby making regional water system capacity and storage available and accessible to

meet the needs of the region. Local water supply projects may include, among other things, recycled water, groundwater recovery, conjunctive use, and seawater desalination. Metropolitan offers financial incentives to member agencies to help fund the development of a number of these types of local supply projects. The stated goal of the IRP is to seek to develop 230,000 acre-feet of additional local supplies produced by existing and future projects, with the region reaching a target of 2.4 million acre-feet of total dependable local supply by 2040. See “REGIONAL WATER RESOURCES–Local Water Supplies” in this Appendix A.

State Water Project

Background

One of Metropolitan’s two major sources of water is the State Water Project, which is owned by the State, and managed and operated by DWR. The State Water Project is the largest state-built, multipurpose, user-financed water project in the country. It was designed and built primarily to deliver water, but also provides flood control, generates power for pumping, is used for recreation, and enhances habitat for fish and wildlife. The State Water Project provides irrigation water to 750,000 acres of farmland, mostly in the San Joaquin Valley, and provides municipal and industrial water to approximately 25 million of California’s estimated 39.2 million residents, including the population within the service area of Metropolitan.

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

State Water Contract

In 1960, Metropolitan signed a water supply contract (as amended, the “State Water Contract”) with DWR to receive water from the State Water Project. Metropolitan is one of 29 agencies and districts that have long-term contracts for water service from DWR (known collectively as the “State Water Contractors” and sometimes referred to herein as “Contractors”). Metropolitan is the largest of the State Water Contractors in terms of the number of people it serves (approximately 18.8 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 52 percent for 2016). Metropolitan received its first delivery of State Water Project water in 1972.

Pursuant to the terms of the State water contracts, all water-supply related expenditures for capital and operations, maintenance, power, and replacement costs associated with the State Water Project facilities are paid for by the State Water Contractors. In exchange, Contractors have the right to participate in the system, with an entitlement to water service from the State Water Project and the right to use the portion of the State Water Project conveyance system necessary to deliver water to them. Each year DWR estimates the total State Water Project water available for delivery to the State Water Contractors and allocates the available project water among the State Water Contractors in accordance with the State water contracts. DWR’s total water supply availability projections are refined over the course of the winter season based upon updated rainfall and snowpack values and allocations to the State Water Contractors are adjusted accordingly.

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

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

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

Under its State Water Contract, Metropolitan has a contractual right to its proportionate share of the State Water Project water that DWR determines annually is available for allocation to the Contractors. This determination is made by DWR each year based on existing supplies in storage, forecasted hydrology, and other factors. Available State Water Project water is then allocated to the Contractors in proportion to the amounts set forth in “Table A” of their respective State water contract. Pursuant to Table A of its State Water Contract, Metropolitan is entitled to approximately 46 percent of the total annual allocation made available to State Water Contractors each year.

Metropolitan’s State Water Contract, under a 100 percent allocation, provides Metropolitan 1,911,500 acre-feet of water. The 100 percent allocation is referred to as the contracted amount. Late each year, DWR announces an initial allocation estimate for the upcoming year, but periodically provides subsequent estimates throughout the year if warranted by developing precipitation and water supply conditions. From calendar years 2004 through 2016, the amount of water received by Metropolitan from the State Water Project, including water from water transfer, groundwater banking and exchange programs delivered through the California Aqueduct (described under “–Water Transfer, Storage and Exchange Programs”), varied from a low of 593,000 acre-feet in calendar year 2015 to a high of 1,800,000 acre-feet in 2004. In calendar year 2016, DWR’s allocation to State Water Contractors was 60 percent of contracted amounts, or 1,146,000 acre-feet, for Metropolitan.

On December 1, 2016, DWR announced an initial calendar year 2017 allocation of 20 percent. On December 21, 2016, DWR increased the allocation estimate to 45 percent. On January 18, 2017, DWR increased the allocation estimate to 60 percent of contracted amounts based on runoff from storms that increased the combined storage in Oroville and San Luis Reservoir by over 600,000 acre-feet. This increased allocation estimate reflects improving hydrologic conditions in California and increasing storage levels in the State’s major reservoirs, but also takes into account federally mandated environmental restrictions that have been imposed upon water deliveries from the Bay-Delta, including the biological opinions discussed below. See “–Endangered Species Act and Other Environmental Considerations – Endangered Species Act Considerations – State Water Project – Delta Smelt and Salmon Federal ESA Biological Opinions.” If necessary, Metropolitan may augment its State Water Project deliveries using withdrawals from its storage programs along the State Water Project and through water transfer and exchange programs. However, in light of current water conditions in California and the estimated 2017 allocation, supplies are expected to exceed projected demands and Metropolitan anticipates it will add water to its storage programs. See “–Water Transfer, Storage and Exchange Programs.”

The term of Metropolitan's State Water Contract currently extends to December 31, 2035. Upon expiration of the State Water Contract term, Metropolitan has the option to continue service under substantially the same terms and conditions. Metropolitan and other State Water Contractors have undertaken negotiations with DWR to extend their State water contracts. In June 2014, DWR and the State Water Contractors reached an Agreement in Principle (the "Agreement in Principle") on an amendment to the State water contract to extend the contract and to make certain changes related to financial management of the State Water Project in the future. DWR and 25 of the State Water Contractors, including Metropolitan, have signed the Agreement in Principle. Under the Agreement in Principle, the term of the State water contract for each Contractor that signs an amendment would be extended until December 31, 2085. The Agreement in Principle will serve as the "proposed project" for purposes of environmental review under the California Environmental Quality Act ("CEQA"). DWR issued a Notice of Availability of the Draft Environmental Impact Report ("EIR") for the proposed project on August 17, 2016. The review period ended October 17, 2016. Following CEQA review, a State Water Project contract amendment will be prepared. Such amendment will be subject to review by the Legislature.

Bay-Delta Proceedings Affecting State Water Project

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

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

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

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 ongoing drought conditions in 2014 and 2015, DWR and the Bureau of Reclamation requested temporary relief from certain WQCP standards and filed petitions 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 and disclosed the environmental impacts of a 30-year plan to improve the Bay-Delta’s ecosystem, water supply reliability, water quality, and levee stability. The CALFED 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 proposed an alternative implementation strategy and new alternatives to the BDCP to provide for the protection of water supplies conveyed through the Bay-Delta and the restoration of the ecosystem of the Bay-Delta, termed “California WaterFix” and “California EcoRestore,” respectively. In this alternative approach, DWR and the Bureau of Reclamation would implement planned water conveyance improvements (California WaterFix) as a stand-alone project that would seek incidental take authorization for an unspecified period and would include only limited amounts of habitat restoration. The habitat restoration to be required would be that directly related to construction mitigation and the associated costs of such mitigation which would be underwritten by the public water agencies participating in the California WaterFix project. Ecosystem improvements and habitat restoration more generally (California EcoRestore) would be undertaken under a more phased approach than previously contemplated by the BDCP and would not be linked with the California WaterFix project or permits. Accelerated restoration actions totaling 30,000 acres of tidal marsh habitat were proposed to be undertaken in the coming decade to provide public benefits for listed fish in the Bay-Delta. (See also “–Endangered Species Act and Other Environmental Considerations – Endangered Species Act Considerations – State Water Project.”) Subsequent actions would be based on the proven merits of restoration. Preliminary cost estimates for the WaterFix alternative are currently estimated to be \$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. The Final EIR/EIS for the BDCP/California WaterFix was completed and made available to the public and other agencies on December 22, 2016. The Notice of Availability of the Final EIR/EIS was published by the Bureau of Reclamation in the Federal Register on December 30, 2016. On January 4, 2017, the U.S. Secretary of the Interior issued an order to federal agencies involved in the California WaterFix stating the U.S. Fish and Wildlife Service will issue a final biological opinion by April 2017. A similar schedule is anticipated for the biological opinion to be issued by the National Marine Fisheries Service. Upon receipt of the biological opinions, the Bureau of Reclamation will be able to issue a Record of Decision for the project. Certification of the EIR/EIS under CEQA and final decision-making by DWR is expected at that same time. See also “–Endangered Species Act and Other Environmental Considerations – Endangered Species Act Considerations – State Water Project.”

Related Litigation

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 Bay-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 WQCP, and the federal 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. In August 2016, the court dismissed the case without prejudice based on the failure of the petitioners to bring the case to trial within five years of filing their original petition.

Monterey Amendment Litigation. On May 4, 2010, DWR completed an EIR and concluded a remedial CEQA review for the Monterey Amendment, which reflects the settlement of certain disputes regarding the allocation of State Water Project water. See “– State Water Contract” above. Central Delta Water Agency, South Delta Water Agency, California Water Impact Network, California Sportfishing Protection Alliance, and the Center For Biological Diversity filed a lawsuit against DWR in Sacramento County Superior Court challenging the validity of the EIR under CEQA and the validity of underlying agreements under a reverse validation action (the “Central Delta I” case). In January 2013, the Court ruled that the validation cause of action in Central Delta I was time barred by the statute of limitations. The court also held that DWR must complete a limited scope remedial CEQA review addressing the potential impacts of the Kern Water Bank, a portion of the Monterey Amendment that does not directly affect Metropolitan. The court also ruled that the State Water Project may continue to be operated under the terms of the Monterey Amendment while the remedial CEQA review is prepared and leaves in place the underlying project approvals while DWR prepares the remedial CEQA review. Plaintiffs appealed. Briefing by the parties was completed, but no date for oral argument has been set. Any adverse impact of this litigation and rulings on Metropolitan’s State Water Project supplies cannot be determined at this time.

In September 2016, DWR certified the Final Revised Draft EIR for the Monterey Amendment, recorded a Notice of Determination, and filed papers in the trial demonstrating compliance with the court’s order for remedial CEQA review. On October 21, 2016, the petitioner group from Central Delta I and a new lead petitioner, Center for Food Safety, filed litigation against DWR challenging this EIR and named Metropolitan and the other State Water Project contractors as respondent parties. Any adverse impact of this litigation and rulings on Metropolitan’s State Water Project supplies cannot be determined at this time.

Colorado River Aqueduct

Background

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

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

availability of Colorado River water for delivery to Metropolitan as described below. Metropolitan first delivered CRA water to its member agencies in 1941.

Colorado River Water Apportionment and Seven-Party Agreement

Pursuant to the federal Boulder Canyon Project Act of 1928, California is apportioned the use of 4.4 million acre-feet of water from the Colorado River each year plus one-half of any surplus that may be available for use collectively in Arizona, California and Nevada (the “Lower Basin States”). Under an agreement entered into in 1931 among the California entities that expected to receive a portion of California’s apportionment of Colorado River water (the “Seven-Party Agreement”) and which has formed the basis for the distribution of Colorado River water made available to California, Metropolitan holds the fourth priority right to 550,000 acre-feet per year. This is the last priority within California’s basic apportionment. In addition, Metropolitan holds the fifth priority right to 662,000 acre-feet of water, which is in excess of California’s basic apportionment. Until 2003, Metropolitan had been able to take full advantage of its fifth priority right as a result of the availability of surplus water and water apportioned to Arizona and Nevada that was not needed by those states. However, during the 1990s Arizona and Nevada increased their use of water from the Colorado River, and by 2002 no unused apportionment was available for California. As a result, California has limited its annual use to 4.4 million acre-feet since 2003, not including supplies made available under water supply programs such as intentionally-created surplus and certain conservation and storage agreements. In addition, a severe drought in the Colorado River Basin from 2000-2004 reduced storage in system reservoirs, ending the availability of surplus deliveries to Metropolitan. Prior to 2003, Metropolitan could divert over 1.25 million acre-feet in any year, 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 1,179,000 acre-feet in 2015, and totaled over 996,000 acre-feet in 2016. Average annual net deliveries for 2007 through 2016 were approximately 962,000 acre-feet, with annual volumes dependent primarily on programs to augment supplies, including transfers of conserved water from agriculture. See “– Quantification Settlement Agreement” and “– Colorado River Operations: Surplus and Shortage Guidelines – Interim Surplus Guidelines” below. See also “–Water Transfer, Storage and Exchange Programs – Colorado River Aqueduct.”

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

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

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

Source: Metropolitan.

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

Quantification Settlement Agreement

The Quantification Settlement Agreement ("QSA"), executed by the Coachella Valley Water District ("CVWD"), Imperial Irrigation District ("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 were completed in 2009 and 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 takes delivery of the remaining 16,000 acre-feet annually. The 16,000 acre-feet provided annually to Metropolitan will eventually 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 a delivery and exchange agreement between Metropolitan and CVWD that provides for Metropolitan, when requested, to deliver annually up to 35,000 acre-feet of Metropolitan’s State Water Project contractual water to CVWD by exchange with Metropolitan’s available Colorado River supplies. The QSA and related agreements also authorized the transfer of water (up to a maximum expected amount in 2021 of 205,000 acre-feet) annually by IID to SDCWA. See description below under the caption “– Sale of Water by the Imperial Irrigation District to San Diego County Water Authority” below; 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 Palo Verde Land Management, Crop Rotation and Water Supply Program (described under “Water Transfer, Storage and Exchange Programs–Colorado River Aqueduct” below), which provides up to approximately 133,000 acre-feet of water per year. (Amounts of Colorado River water received by Metropolitan in 2007 through 2016 are discussed under the heading “– Colorado River Aqueduct–Colorado River Water Apportionment and Seven-Party Agreement” above.)

A complicating factor in completing the QSA was the fate of the Salton Sea. The Sea and its environs provide a habitat complex supporting more than 400 species of birds. Located at the lowest elevation of an inland basin and fed primarily by agricultural drainage with no outflows other than evaporation, the Salton Sea was naturally trending towards hyper-salinity, which had 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 flowing into the Salton Sea, which would reduce the volume of water in the Sea, exposing shoreline and accelerating the 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 2002, the SWRCB issued Water Rights Order 2002-0013, which gave approval for the transfer of water from IID to SDCWA and CVWD, and which required Salton Sea mitigation water deliveries from 2003 through 2017.

In 2003, to facilitate implementation of the QSA, the Legislature directed the Secretary for the California Natural Resources Agency to undertake a restoration study to determine a preferred alternative for the restoration of the Salton Sea ecosystem and the protection of wildlife dependent on that ecosystem. In May 2007, the Secretary submitted his \$8.9 billion preferred alternative to the Legislature. While withholding authorization of the preferred alternative, in 2008 the Legislature directed the California Natural Resources Agency to undertake demonstration projects and investigations called for in the Secretary’s May 2007 recommendation. Since then, the California Natural Resources Agency and the U.S. Fish and Wildlife Service have been developing various pilot-scale projects which are at various stages of planning and implementation.

Concerned that the California Natural Resources Agency has not made sufficient progress to develop a long-term restoration plan for the Salton Sea, in November 2014, IID filed a petition with the SWRCB asking it to modify the SWRCB’s 2002 order. IID stated that it is concerned that the scheduled termination of mitigation water deliveries to the Salton Sea at the end of 2017 will result in the shrinking of the Sea and an increase in exposed playa and fugitive dust emissions. IID’s petition requested that the SWRCB modify its order to include a requirement that “the State fulfill its statutory obligation to restore the Salton Sea as a

condition of the QSA transfers.” See “– Sale of Water by the Imperial Irrigation District to San Diego County Water Authority” below. The SWRCB has held various workshops to receive input on the petition.

During the spring of 2015, the Governor tasked a number of individuals from his staff, known as the “Salton Sea Task Force,” to look into actions that could be taken at the Sea. In October 2015, the Salton Sea Task Force announced that it would implement a number of actions to address the Salton Sea ecosystem, including immediate implementation and further development of the Salton Sea management plan, meeting a short-term goal by 2020 of 9,000-12,000 acres of habitat creation and dust suppression projects and a medium-term goal after 2020 of 18,000-25,000 acres of habitat creation and dust suppression projects. In August 2016, the U.S. Department of the Interior and the California Natural Resources Agency entered into an MOU which outlines the manner in which federal agencies would cooperate with State and local agencies to assist the Salton Sea Task Force in achieving its stated goals. While projects that are currently underway or are anticipated to begin in 2017 are not expected to meet the Salton Sea Task Force’s short-term goal, the Salton Sea Task Force continues its efforts to identify a long-term plan for the Salton Sea for construction to begin as early as 2018. In the absence of a Salton Sea restoration project, the QSA and related agreements provide for the control of exposed playa by IID as a mitigation measure funded by CVWD, IID, and SDCWA, with the State of California obligated to meet all mitigation costs that exceed \$133 million in 2003 dollars. Metropolitan has no obligation to pay any costs associated with 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–Litigation Challenging Rate Structure” in this Appendix A for a description of Metropolitan’s charges for the conveyance of water through Metropolitan’s facilities and litigation in which SDCWA is challenging such charges. In 2016, 178,493 acre-feet were delivered to Metropolitan by SDCWA for exchange, consisting of 100,000 acre-feet of IID conservation plus 78,493 acre-feet of conserved water from the Coachella Canal and All-American Canal lining projects.

Colorado River Operations: Surplus and Shortage Guidelines

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

Interim Surplus Guidelines. In January 2001, the Secretary of the Interior adopted guidelines (the “Interim Surplus Guidelines”), initially for use through 2016, in determining if there is surplus Colorado River water available for use in California, Arizona and Nevada. The Interim Surplus Guidelines were amended in 2007 and now extend through 2026. The purpose of the Interim Surplus Guidelines was to provide mainstream users of Colorado River water, particularly those in California who utilize surplus flows, a greater degree of predictability with respect to the availability and quantity of surplus water.

Under the Interim Surplus Guidelines, Metropolitan initially expected to divert up to 1.25 million acre-feet of Colorado River water annually under foreseeable runoff and reservoir storage scenarios from 2004 through 2016. However, an extended drought in the Colorado River Basin reduced these initial expectations. In May 2002, the Southern Nevada Water Authority (“SNWA”) and Metropolitan entered into an Agreement Relating to Implementation of Interim Colorado River Surplus Guidelines, in which SNWA and Metropolitan agreed to the allocation of unused apportionment as provided in the Interim Surplus Guidelines and on the priority of SNWA for interstate banking of water in Arizona. SNWA and Metropolitan entered into a storage and interstate release agreement on October 21, 2004. Under this agreement, SNWA can request that Metropolitan store unused Nevada apportionment in California. The amount of water stored through 2014 under this agreement was approximately 205,000 acre-feet. In subsequent years, SNWA may request recovery of the stored water. As part of a 2012 executed amendment to the agreement, 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 additional amendment to the agreement under which Metropolitan paid SNWA approximately \$44.4 million and SNWA stored an additional 150,000 acre-feet with Metropolitan during 2015. Of that amount, 125,000 acre-feet has been added to SNWA’s storage account with Metropolitan, increasing the total amount of water stored to approximately 330,000 acre-feet. When SNWA requests the return of any of the stored 125,000 acre-feet, SNWA will reimburse Metropolitan for an equivalent proportion of the \$44.4 million plus inflation based on the amount of water returned. The stored water allowed 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 May 2005, the Secretary of the Interior directed the Bureau of Reclamation to develop additional strategies for improving coordinated management of the reservoirs of the Colorado River system. In November 2007, the Bureau of Reclamation issued a Final Environmental Impact Statement (“EIS”) regarding new federal guidelines concerning the operation of the Colorado River system reservoirs, particularly during drought and low reservoir conditions. These guidelines provide water release criteria from Lake Powell and water storage and water release criteria from Lake Mead during shortage and surplus conditions in the Lower Basin, provide a mechanism for the storage and delivery of conserved system and non-system water in Lake Mead and extend the Interim Surplus Guidelines through 2026. 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. Consistent with these legal protections, under the guidelines, Arizona and Nevada are first subject to the initial annual shortages identified by the Secretary up to 500,000 acre-feet.

The guidelines also created the Intentionally Created Surplus (“ICS”) program, which allows the Lower Basin States to store conserved water in Lake Mead. Under this program, ICS water (water that has been conserved through an extraordinary conservation measure, such as land fallowing) is eligible for storage in Lake Mead by Metropolitan. 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 the stored ICS water to Metropolitan in accordance with the terms of December 13, 2007, January 6, 2010, and November 20, 2012 Delivery Agreements between the United States and Metropolitan. As of January 1, 2017, Metropolitan had an estimated 71,000 acre-feet in its ICS 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, which have not been delivered to the region.

Related Litigation

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 (described under “– Colorado River Operations: Surplus and Shortage Guidelines” above) and seeks to prohibit the Department of the Interior from allocating any “surplus” water until such time as a determination of the rights of the Navajo Nation is completed. Metropolitan and other California water agencies filed motions to intervene in this action. In October 2004 the court granted the motions to intervene and stayed the litigation to allow negotiations among the Navajo Nation, federal defendants, Central Arizona Water Conservation District (“CAWCD”), State of Arizona and Arizona Department of Water Resources. After years of negotiations, a tentative settlement was proposed in 2012 that would provide the Navajo Nation with specified rights to water from the Little Colorado River and groundwater basins under the reservation, along with federal funding for development of water supply systems on the tribe’s reservation. The proposed agreement was rejected by tribal councils for both the Navajo and the Hopi, who were seeking to intervene. On May 16, 2013, the stay of proceedings was lifted. On June 3, 2013, the Navajo Nation moved for leave to file a first amended complaint, which the court granted on June 27, 2013. The amended complaint added a legal challenge to the Lower Basin Shortage Guidelines adopted by the Secretary of the Interior in 2007 that allow Metropolitan and other Colorado River water users to store water in Lake Mead (described under “– Colorado River Operations: Surplus and Shortage Guidelines” above). 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. 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. Oral argument in the Ninth Circuit Court of Appeals has been set for February 14, 2017. 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.

Endangered Species Act and Other Environmental Considerations

Endangered Species Act Considerations – State Water Project

General. DWR has altered the operations of the State Water Project to accommodate species of fish listed as threatened or endangered under the Federal ESA or California ESA. 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, the longfin smelt is listed as a threatened species under the California ESA. These changes in project operations have limited the flexibility of the State Water Project and adversely affected State Water Project deliveries to Metropolitan. State Water Project operational requirements may be further modified in the future under new biological opinions for listed species under the Federal ESA or by the California Department of Fish and Wildlife’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 the water supply available for export. Such operational constraints are likely to continue until long-term solutions to the problems in the Bay-Delta are identified and implemented. See also “–State Water Project – Bay-Delta Proceedings Affecting State Water Project.”

The Federal ESA requires that before any federal agency authorizes funds or carries out an action that may affect a listed species or designated critical habitat, it must consult with the appropriate federal fishery agency 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 (USFWS) released a biological opinion on December 15, 2008 on the impacts of the State Water Project and the federal Central Valley Project on Delta smelt. On June 4, 2009, the National Marine Fisheries Service (NMFS) released a biological opinion for salmonid species. The water supply restrictions imposed by these biological opinions on Delta smelt and salmonid species 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 to State Water Contractors attributable to the Delta smelt and salmonid species biological opinions combined is estimated to be one million acre-feet in an average year, reducing total State Water Project deliveries to State Water Contractors from approximately 3.3 million acre-feet to approximately 2.3 million acre-feet for the year under average hydrology. Reductions 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. Total State Water Project delivery impacts to Metropolitan for calendar years 2008 through 2016 are estimated to be 2.0 million acre-feet.

Endangered Species Act Considerations - Colorado River

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

Invasive Species - Mussel Control Programs

Zebra and quagga mussels are established in many regions of the United States. Mussels can reproduce quickly and, if left unmanaged, can 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. In January 2007 quagga mussels were discovered in Lake Mead. The

most likely source of the quagga mussel infestation in the Colorado River was 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, Lake Skinner outlet conduit, and Lake Mathews Forebay, quarterly chlorination of the outlet towers at Lake Skinner and Mathews, and physical removal of mussels from the trash racks in Lake Havasu. Recent shutdown inspections have demonstrated that the combined use of chlorine and regular cleaning during scheduled shutdowns effectively control mussel infestation in the CRA. Metropolitan's costs for controlling quagga mussels in the CRA are between \$4 million and \$5 million per year.

Quagga and zebra mussel populations are located within 16 miles of the State Water Project. An isolated population of zebra mussels is established in San Justo Reservoir in Central California and Lake Piru in Southern California has been infested with quagga mussels since 2013. To prevent the further spread of the mussels into the State Water Project, the Bay-Delta and other bodies of water and water systems, DWR has joined the California Department of Fish and Wildlife, as the lead agency, and other state and federal agencies on a number of activities. These include boat inspections, monitoring of water bodies and water systems and education of the public. In addition, DWR has developed a Rapid Response Plan, Vector Management Plan, and Long-Term Mussel Management and Control Plan as mandated by the California Fish and Game Code.

In December 2016, DWR found dead adult mussels in the Angeles Tunnel, which connects Pyramid Lake to Castaic Lake. Through DNA testing, they were confirmed to be quagga mussels. As a result of such findings, the California Department of Fish and Wildlife has deemed the State Water Project West Branch (including Pyramid and Castaic Lakes) to be infested with quagga mussels and has implemented boat inspection requirements on boats leaving Pyramid Lake and Castaic Lake to help prevent the spreading of the invasive species.

In February 2017, DWR detected mussel veligers (microscopic, free-floating larval lifestage) in water samples collected on the State Water Project East Branch at the North Park valve of the Santa Ana Valley Pipeline, which transports water from Silverwood Lake located in San Bernardino County to Lake Perris located in Riverside County. Extensive sampling has occurred upstream and downstream of the North Park valve and no mussels have been detected. Currently, there is no evidence of mussels in Silverwood Lake or Lake Perris.

There are no impacts on State Water Project allocation or deliveries at this time and the future level of mussel impacts is unknown. Metropolitan will coordinate with other agencies to increase the monitoring of mussels and adapt the existing quagga mussel control program for the State Water Project as required.

Water Transfer, Storage and Exchange Programs

General

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

below, Metropolitan is entitled to storage and access to stored water in connection with various other storage programs and facilities. See “–Colorado River Aqueduct” above 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.”

State Water Project

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

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

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

California’s agricultural activities consume approximately 34 million acre-feet of water annually, which is approximately 80 percent of the total water used in the State for agricultural and urban uses and 40 percent of the water used for all consumptive uses, including environmental demands. Voluntary water transfers and exchanges 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. The portfolio of supplemental supplies that Metropolitan has developed to be conveyed through the State Water Project California Aqueduct extend from north of the Bay-Delta to Southern California. Certain of these arrangements are described below.

Yuba River Accord. Metropolitan entered into an agreement with DWR in December 2007 to purchase a portion of the water released by the Yuba County Water Agency (“YCWA”). YCWA was involved in a SWRCB proceeding in which it was required to increase Yuba River fishery flows. Within the framework of agreements known as the Yuba River Accord, DWR entered into an agreement for the long-term purchase of water from YCWA. The agreement permits YCWA to transfer additional supplies at its discretion. Metropolitan, other State Water Contractors, and the San Luis Delta Mendota Water Authority entered into separate agreements with DWR for the purchase of portions of the water made available. Metropolitan’s agreement allows Metropolitan to purchase, in dry years through 2025, available water supplies which have ranged from approximately 6,555 acre-feet to 67,068 acre-feet per year.

In addition to water made available under the Yuba River Accord, Metropolitan has developed groundwater storage agreements that allow Metropolitan to store available supplies in the Central Valley for return later. Metropolitan has also developed exchanges and transfers with other State Water Contractors.

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."

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

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

Mojave Storage Program. Metropolitan entered into a groundwater banking and exchange transfer agreement with Mojave Water Agency ("Mojave") in October 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 Mojave'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 82,800 acre-feet of water. Metropolitan's current storage account under this program is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "--Storage Capacity and Water in Storage."

Antelope Valley East Kern Storage and Exchange Program. In 2016, Metropolitan entered into an agreement with the Antelope Valley-East Kern Water Agency ("AVEK"), the third largest State Water Project Contractor, to both exchange supplies and store water in the Antelope Valley groundwater basin. Under this agreement, AVEK would provide at least 30,000 acre-feet over ten years of its unused Table A State Water Project water to Metropolitan. For every two acre-feet provided to Metropolitan as part of the exchange, AVEK would receive back one acre-foot in the future. For the one acre-foot that is retained by Metropolitan, Metropolitan would pay AVEK under a set price schedule based on the State Water Project allocation at the time. The payment would range from \$587/acre-foot under a 5 percent State Water Project allocation to \$38/acre-foot under an 86 percent State Water Project allocation.

San Bernardino Valley Municipal Water District Coordinated Operating Agreement. Metropolitan entered into an agreement with the San Bernardino Valley Municipal Water District ("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.

San Gabriel Valley Municipal Water District and Other Exchange Programs. In 2013, Metropolitan entered into an agreement with the San Gabriel Valley Municipal Water District (“SGVMWD”). Under this agreement, Metropolitan delivers treated water to a SGVMWD subagency in exchange for twice as much untreated State Water Project supplies delivered into the groundwater basin that supplies this agency and metropolitan subagencies. Metropolitan can purchase at least 5,000 acre-feet per year, in excess of the unbalanced exchange amount. This program has the potential to increase Metropolitan’s reliability by providing 115,000 acre-feet through 2035.

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 “–Endangered Species Act and Other Environmental Considerations–Endangered Species Act Considerations - State Water Project.” In 2016, Metropolitan entered into an agreement with the State Water Contractors, Inc. to pursue water transfer supplies. These purchases were not completed, however due to the 60 percent State Water Project allocation, which resulted in no conveyance capacity to move the transfer supplies to Metropolitan.

Metropolitan has also entered into an agreement with certain State Water Contractors for the exchange of a portion of its Colorado River supply for their State Water Project contracted amounts. One benefit of the agreement is reducing Metropolitan’s State Water Project fixed costs in wetter years when there are more than sufficient supplies to meet Metropolitan’s water management goals, while preserving its dry-year State Water Project Supply.

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 CVWD and DWA do not have a physical connection to the State Water Project, Metropolitan takes delivery of CVWD’s and DWA’s State Water Project supplies and delivers a like amount of Colorado River water to the agencies. In accordance with 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.” 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 2016, Metropolitan has received a net additional supply of 88,527 acre-feet of water acquired by CVWD and DWA.

Colorado River Aqueduct

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

Aqueduct – Colorado River Operations: Surplus and Shortage Guidelines – Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead.”

IID/Metropolitan Conservation Agreement. Under a 1988 water conservation agreement, as amended in 2003 and 2007 (the “1988 Conservation Agreement”) between Metropolitan and IID, Metropolitan provided funding for IID to construct and operate a number of conservation projects that have conserved up to 109,460 acre-feet of water per year that has been provided to Metropolitan. As amended, the agreement’s initial term has been extended to at least 2041 or 270 days after the termination of the QSA. In 2016, 105,000 acre-feet of conserved water was made available by IID to Metropolitan. Under the QSA and related agreements, Metropolitan, at the request of CVWD, forgoes up to 20,000 acre-feet of this water each year for diversion by CVWD. In 2015 and 2016, CVWD’s requests were for 6,715 and an estimated 15,942 acre-feet, respectively, leaving 101,105 acre-feet in 2015 and an estimated 89,058 acre-feet in 2016 for Metropolitan. See “–Colorado River Aqueduct – Quantification Settlement Agreement.”

Palo Verde Land Management, Crop Rotation and Water Supply Program. In August 2004, Metropolitan and the Palo Verde Irrigation District (“PVID”) signed the program agreement for a Land Management, Crop Rotation and Water Supply Program. Under this program, participating landowners in the PVID service area are compensated for reducing water use by not irrigating a portion of their land. This program provides up to 133,000 acre-feet of water to be available to Metropolitan in certain years. The term of the program is 35 years. Fallowing began on January 1, 2005. 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, an additional 24,100 acre-feet and 32,300 acre-feet of water, respectively, 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 under the Land Management, Crop Rotation and Water Supply Program with PVID:

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

Calendar Year	Volume (acre-feet)
2006	105,000
2007	72,300
2008	94,300
2009 ⁽¹⁾	144,300
2010 ⁽¹⁾	148,600
2011	122,200
2012	73,700
2013	32,750
2014	43,010
2015	94,480
2016 ⁽²⁾	125,000

Source: Metropolitan.

- (1) Includes water from the supplemental fallowing program that provided for fallowing of additional acreage in 2009 and 2010.
- (2) Estimate.

Lake Mead Storage Program. As described under “–Colorado River Aqueduct–Colorado River Operations: Surplus and Shortage Guidelines–Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead,” in December 2007, Metropolitan entered into agreements to set forth the guidelines under which ICS water is developed, and stored in and delivered from Lake Mead. The amount of water stored in Lake Mead must be created through extraordinary conservation,

system efficiency, or tributary conservation methods. Metropolitan has participated in projects to create ICS as described below:

Drop 2 (Warren H. Brock) Reservoir. In May 2008, Metropolitan provided \$28.7 million to join the CAWCD and the SNWA in funding the Bureau of Reclamation's construction of an 8,000 acre-foot off-stream regulating reservoir near Drop 2 of the All-American Canal in Imperial County (officially named the Warren H. Brock Reservoir). Construction was completed in October 2010 and the Bureau of Reclamation refunded approximately \$3.71 million in unused contingency funds to Metropolitan. The Warren H. Brock Reservoir conserves about 70,000 acre-feet of water per year by capturing and storing water that would otherwise be lost from the system. In return for its funding, Metropolitan received 100,000 acre-feet of water that was stored in Lake Mead for its future use, and has the ability to receive up to 25,000 acre-feet of water in any single year. Besides the additional water supply, the addition of the Warren H. Brock reservoir adds to the flexibility of Colorado River operations by storing underutilized Colorado River water orders caused by unexpected canal outages, changes in weather conditions, and high runoff into the Colorado River. As of January 1, 2016, Metropolitan had taken delivery of 43,992 acre-feet of this water, and had 56,008 acre-feet remaining in storage.

Yuma Desalting Plant. 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 approximately \$8.4 million, of which approximately \$1.1 million was refunded to Metropolitan. Metropolitan's yield from the pilot run of the project was 24,397 acre-feet. As of January 1, 2016, that water was stored in Lake Mead for Metropolitan's future use.

Mexico Pilot Project. 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 was \$5 million for 47,500 acre-feet of project supplies. In December 2013, Metropolitan and IID executed an agreement under which IID has paid half of Metropolitan's program costs, or \$2.5 million, in return for half of the project supplies, or 23,750 acre-feet. In addition, 23,750 acre-feet of conserved water will be credited to Metropolitan's binational ICS water account no later than December 31, 2017. See "–Colorado River Aqueduct – Colorado River Operations: Surplus and Shortage Guidelines – Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead."

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 2016, 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 "–Endangered Species Act and Other Environmental Considerations – Endangered Species Act Considerations – State Water Project – Delta Smelt and Salmon Federal ESAs Biological Opinions." Metropolitan replenishes its storage accounts when available imported supplies exceed demands. Effective storage management is dependent on having sufficient years of excess supplies to store water so that it can be used during times of shortage. 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. See “CONSERVATION AND WATER SHORTAGE MEASURES–Water Supply Allocation Plan.” 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 2014, Metropolitan withdrew approximately 1.2 million acre-feet from storage, reducing overall storage to approximately 1.8 million acre-feet. Approximately 300,000 acre-feet were withdrawn from storage reserves in 2015, leaving approximately 1.5 million acre-feet in storage reserves as of January 1, 2016. Approximately 350,000 acre-feet were returned to storage reserves in 2016, providing for nearly 1.9 million acre-feet in reserves as of January 1, 2017. The following table shows three years of Metropolitan’s water in storage as of January 1, including emergency storage.

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

<u>Water Storage Resource</u>	<u>Storage Capacity</u>	<u>Water in Storage January 1, 2017</u>	<u>Water in Storage January 1, 2016</u>	<u>Water in Storage January 1, 2015</u>
<u>Colorado River Aqueduct</u>				
Desert / CVWD Advance Delivery Account	800,000	38,000	200,000	249,000
Lake Mead ICS	<u>1,500,000</u>	<u>71,000</u>	<u>80,000</u>	<u>151,000</u>
Subtotal	2,300,000	109,000	280,000	400,000
<u>State Water Project</u>				
Arvin-Edison Storage Program	350,000	108,000	124,000	166,000
Semitropic Storage Program	350,000	125,000	137,000	194,000
Kern Delta Storage Program	250,000	99,000	119,000	150,000
San Bernardino Valley MWD				
Coordinated Operating Agreement	50,000	-0-	-0-	-0-
Mojave Storage Program	390,000 ⁽⁵⁾	27,000	31,000	39,000
Castaic Lake and Lake Perris ⁽²⁾	219,000	154,000	30,000	-0-
Metropolitan Article 56 Carryover ⁽³⁾	200,000 ⁽⁶⁾	210,000	3,000	36,000
Other State Water Project Carryover ⁽⁴⁾	n/a	-0-	-0-	-0-
Emergency Storage	<u>334,000</u>	<u>328,000</u>	<u>328,000</u>	<u>328,000</u>
Subtotal	2,143,000	1,051,000	772,000	913,000
<u>Within Metropolitan’s Service Area</u>				
Diamond Valley Lake	810,000	566,000	315,000	394,000
Lake Mathews	182,000	135,000	141,000	78,000
Lake Skinner	<u>44,000</u>	<u>37,000</u>	<u>34,000</u>	<u>30,000</u>
Subtotal⁽⁷⁾	1,036,000	738,000	490,000	502,000
<u>Member Agency Storage Programs</u>				
Cyclic Storage and Conjunctive Use	<u>352,000</u>	<u>1,000</u>	<u>7,000</u>	<u>28,000</u>
Total	<u>5,831,000</u>	<u>1,899,000</u>	<u>1,549,000</u>	<u>1,843,000</u>

Source: Metropolitan.

(footnotes on next page)

(footnotes to table on prior page)

- (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. The January 1, 2017 value includes 42,000 acre-feet of Article 56 carried over by Metropolitan on behalf of Desert Water Agency and Coachella Valley Water District.
- (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 298,000 acre-feet of emergency storage in Metropolitan’s reservoirs in 2015, 2016, and 2017.

CONSERVATION AND WATER SHORTAGE MEASURES

General

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

Metropolitan’s conservation program has largely been developed to assist its member agencies in meeting the “best management practices” (“BMPs”) 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 most recent IRP Update. See “METROPOLITAN’S WATER SUPPLY–Integrated Water Resources Plan.” Under the terms of the CUWCC MOU and Metropolitan’s Conservation Credits Program, Metropolitan administers regional conservation programs and also co-funds member agency conservation programs designed to achieve greater water use efficiency in residential, commercial, industrial, institutional and landscape uses. 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 2015-16 was about \$731 million. The 2015 IRP Update estimates that 1,197,000 acre-feet of water will be conserved annually in southern California by 2025. See also “METROPOLITAN’S WATER SUPPLY–Integrated Water Resources Plan” in this Appendix A and “–Drought Response Actions” below.

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

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

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 the 2009 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

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

Water Supply Allocation Plan

In times of prolonged or severe water shortages, Metropolitan manages its water supplies through the implementation of its Water Supply Allocation Plan. The Water Supply Allocation Plan was originally approved by Metropolitan's Board in February 2008, and has been implemented three times since its adoption, including most recently in April 2015. The 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. In December 2014, the Board approved certain adjustments to the formula for calculating member agency supply allocations during subsequent periods of implementation of the Water Supply Allocation Plan. Although the Act gives each of Metropolitan's member agencies a preferential entitlement to purchase a portion of the water served by Metropolitan (see "METROPOLITAN REVENUES–Preferential Rights"), historically, these rights have not been used in allocating Metropolitan's water. Metropolitan's member agencies and retail water suppliers in Metropolitan's service area also may implement water conservation and allocation programs within their respective service territories in times of shortage. See also "–Drought Response Actions."

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. Implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level, and

response to the Governor’s Order and related implementing regulations (described under “–Drought Response Actions”), reduced supplies delivered by Metropolitan to Metropolitan’s member agencies to approximately 1.6 million acre-feet in fiscal year 2015-16. See also “CONSERVATION AND WATER SHORTAGE MEASURES–General.” Due to improved hydrologic conditions, on May 10, 2016, the Board rescinded the Water Supply Allocation Plan, declared a Condition 2 Water Supply Alert, and decided not to implement the Water Supply Allocation Plan for fiscal year 2016-17. In April 2017, the Board will evaluate current water supply conditions and determine if implementation of the Water Supply Allocation Plan is needed for fiscal year 2017-18. In light of current hydrologic conditions and current DWR State Water Project allocation estimates, implementation of the Water Supply Allocation Plan for fiscal year 2017-18 is not currently expected.

Drought Response Actions

The most recent drought of 2012-2015 represents one of the driest periods in the hydrologic record since 1931-1934. In calendar years 2012-2015, to offset reductions in State Water Project supplies and mitigate impacts of the California drought, in addition to utilizing the limited available supplies from the Colorado River and State Water Project deliveries, Metropolitan met water demands in its service area by supplemental water transfers and purchases, and drawing on storage reserves, while also encouraging responsible and efficient water use to lower demands.

As noted under “–Water Supply Allocation Plan” above, actions taken in response to the drought by the State, Metropolitan’s Board, and Metropolitan member agencies have contributed to reduced demands in Metropolitan’s service area. Following the declaration by Governor Brown on January 17, 2014 of a drought state of emergency for California, 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. The Governor’s Order was implemented through emergency regulation adopted by the SWRCB. On May 18, 2016, the SWRCB adopted modifications to the emergency regulation which replace the state-mandated conservation targets with a supply-based approach that mandates urban water suppliers take actions to ensure at least a three year supply of water to their customers under drought conditions. As a wholesale water agency providing a supplemental water supply to its member agencies, Metropolitan is not subject to the requirements of the Order, which applies to retail water agencies. However, water sales of Metropolitan’s member agencies have declined as a result of conservation efforts and other actions taken to comply with the Order and implementing regulation. 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, and significantly expanded its water conservation and outreach programs and increased funding for conservation incentive programs. See “CONSERVATION AND WATER SHORTAGE MEASURES–General.” In calendar year 2016, Metropolitan returned approximately 350,000 acre-feet of water to storage and continued to encourage responsible and efficient water use.

REGIONAL WATER RESOURCES

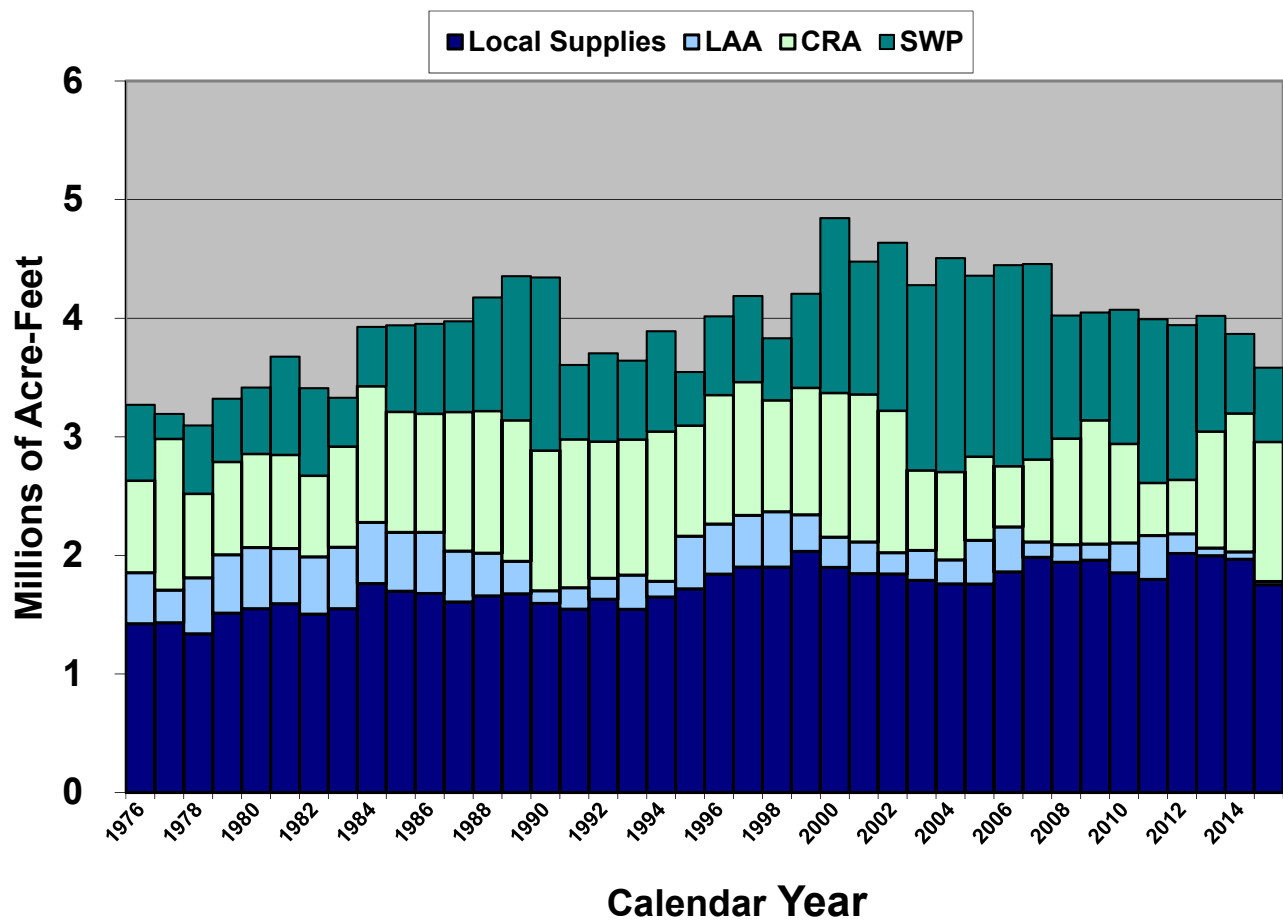
The water supply for Metropolitan’s service area is provided in part by Metropolitan and in part by non-Metropolitan sources available to members. Approximately 60 percent of the water supply for Metropolitan’s service area is imported water received by Metropolitan from the CRA and the State Water Project 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 “CONSERVATION AND WATER SHORTAGE MEASURES” 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 depend on, among other things, 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 1976 to 2015. 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.

Sources of Water Supply in the Metropolitan Service Area (1976-2015)



Source: Metropolitan.

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

Los Angeles Aqueduct

The City, 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 4,500 acre-feet annually when Mono Lake elevation is between 6,377 to 6,380 feet above mean sea level, and 16,000 acre-feet annually when the elevation is between 6,380 to 6,391 feet above mean sea level, on April 1 of the runoff year. On April 1, 2016, the water level of Mono Lake was 6,378.1 feet above mean sea level. Therefore, Mono Basin water exports for runoff year 2016 were limited to 4,500 acre-feet. The 4,500 acre-feet export limit will remain until the water level in Mono Lake reaches 6,380 feet above mean sea level. Once the elevation of Mono Lake reaches 6,391 feet above mean sea level, a moderate increase in water exports from the Mono Basin above the 16,000 acre-feet limit will be permitted pursuant to Decision 1631.

Pursuant to the City's turnout agreement with DWR, AVEK and Metropolitan, LADWP commenced construction in 2010 of the turnout facilities along the California Aqueduct within AVEK's service area. Upon completion, which is expected in 2017, 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 2015-16, approximately 31 to 75 percent of the City's total water requirements were met by Metropolitan. For the five fiscal years ended June 30, 2016, the City's water deliveries from Metropolitan averaged approximately 348,680 acre-feet per year, which constituted approximately 64 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 2015 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, 2015 of 14 percent to 47 percent of its normal year supplies by fiscal year 2039-40. Accordingly, the City's reliance on Metropolitan supplies is expected to decrease from the five year average ending June 30, 2016 of 64 percent to 11 percent of its normal year supplies by fiscal year 2039-40. However, the City may still purchase up to 311,000 acre-feet per year or 44 percent of its dry year supplies from Metropolitan until 2040. This corresponds to an increase from normal to dry years of approximately 237,000 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. In November 2014, LADWP reached an agreement over implementation of dust control measures on Owens Lake which saved approximately 12,000 to 14,000 acre-feet of water in 2015 and is expected to expand water savings in the future. LADWP reports that in 2016, 71,400 acre-feet of 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.

Local Water Supplies

Local water supplies are made up of groundwater, groundwater recovery, surface runoff, recycled water, and seawater desalination. Metropolitan supports local resources development through its Local Resources Program (“LRP”), which provides financial incentives up to \$340 per acre-foot of water production from local water recycling, groundwater recovery and seawater desalination projects. Metropolitan utilizes conjunctive use of groundwater to encourage storage in groundwater basins. Member agencies and other local agencies have also independently funded and developed additional local supplies, including groundwater clean-up, recycled water and desalination of brackish or high salt content water.

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 IRP Update goals. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES–Water Sales Projections” and “METROPOLITAN’S WATER SUPPLY–Integrated Water Resources Plan” in this Appendix A.

Groundwater. Demands for about 1.35 million acre-feet per year, about one-third of the annual water demands for approximately 18.8 million residents of Metropolitan’s service area, are met from groundwater production. Local groundwater supplies are supported by recycled water, which is blended with imported water and recharged into groundwater basins, and also used for creating seawater barriers that protect coastal aquifers from seawater intrusion.

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

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

Conjunctive use agreements provide for storage of imported water that can be called for use by Metropolitan during dry, drought, or emergency conditions. During a dry period, Metropolitan has the option to call water stored in the groundwater basins pursuant to its contractual conjunctive use agreements. At the time of the call, the member agency pays Metropolitan the prevailing rate for that water. Nine conjunctive use projects provide about 210,000 acre-feet of groundwater storage and have a combined extraction capacity of about 70,000 acre-feet per year. As of January 2017, the balance in the nine accounts was approximately 1,000 acre-feet. 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 25 projects that recover contaminated groundwater with total contract yields of about

118,000 acre-feet per year. During fiscal year 2015-16, Metropolitan provided incentives for approximately 49,000 acre-feet of recovered water under these agreements. Total groundwater recovery use under executed agreements is expected to grow to 79,000 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.

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 82 recycled water projects with total contract yields of about 323,000 acre-feet per year. During fiscal year 2015-16, Metropolitan provided incentives for approximately 179,000 acre-feet of reclaimed water under these agreements. Total recycled water use under executed agreements is expected to be approximately 193,000 acre-feet by 2020.

Seawater Desalination. Metropolitan's IRP includes seawater desalination as a part of the region's local supply that could help increase supply reliability in Metropolitan's service area. The IRP also 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, if completed, are anticipated to produce up to 46,000 acre-feet annually. Each agreement automatically terminates in 2020 if the related project is not operational by that time. In October 2014, seawater desalination projects became eligible for funding under Metropolitan's Local Resources Program.

In late 2015, Poseidon Resources LLC ("Poseidon") completed and began operating the 56,000 acre-foot capacity Carlsbad Desalination Project ("Carlsbad Project") and associated pipeline. The SDCWA has a purchase agreement with Poseidon for a minimum of 48,000 acre-feet per year with an option to purchase an additional 8,000 acre-feet per year. Other seawater desalination projects that could provide supplies to Metropolitan's service area are under development or consideration. In partnership with the Orange County Water District, Poseidon is also developing a 56,000 acre-feet per year plant in Huntington Beach which is currently in the permitting phase. SDCWA is also 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. Calleguas Municipal Water District is studying the potential for a 20,000 to 80,000 acre-feet per year project in Ventura County. Otay Water District, located in San Diego County along the Mexico border, is considering the feasibility of purchasing water from a seawater desalination project in Rosarito Beach, Mexico. The 56,000 to 112,000 acre-feet per year project is in the pre-construction 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

Primary Facilities and Method of Delivery

Metropolitan's water delivery system is made up of three basic components: the CRA, the California Aqueduct of the State Water Project and Metropolitan's 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. Improvements are designed to increase the flexibility of the system. Since local sources of water are generally used to their maximum each year, growth in the demand for water is partially met by Metropolitan. 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 pumping 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. The State Water Project, managed and operated by DWR, is one of the largest water supply projects undertaken in the history of water development. The State Water Project facilities dedicated to water delivery consist of a complex system of dams, reservoirs, power plants, pumping plants, canals and aqueducts to deliver water. Water from rainfall and snowmelt runoff is captured and stored in State Water Project conservation facilities and then delivered through State Water Project transportation facilities to water agencies and districts located throughout the Upper Feather River, Bay Area, Central Valley, Central Coast, and Southern California. Metropolitan receives water from the State Water Project through the main stem of the aqueduct system, the California Aqueduct, which is 444 miles long and includes 381 miles of canals and siphons, 49 miles of pipelines or tunnels and 13 miles of channels and reservoirs.

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

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, built, owned and operated by Metropolitan, is located southwest of the city of Hemet, California. It covers approximately 4,410 acres and has capacity to hold approximately 810,000 acre-feet or 265 billion gallons of water. Diamond Valley Lake was constructed to serve approximately 90 percent of Metropolitan's service area by gravity flow. Imported water is delivered to Diamond Valley Lake during surplus periods. The reservoir provides more reliable delivery of imported water from the State Water Project 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. Metropolitan's Inland Feeder is a 44-mile-long conveyance system that connects the State Water Project to Diamond Valley Lake and the CRA. The Inland Feeder provides greater flexibility in managing Metropolitan's major water supplies and allows greater amounts of State Water Project water to be accepted during wet seasons for storage in Diamond Valley Lake. In addition, the Inland Feeder increases the conveyance capacity from the East Branch of the State Water Project by 1,000 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. In recent years, the plants typically treat between 0.8 billion and 1.0 billion gallons of water per day, and have a maximum capacity of approximately 2.6 billion gallons per day. Approximately 50 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 federal Safe Drinking Water Act ("SDWA") establishes drinking water quality standards, monitoring, and public notification and enforcement requirements for public water systems. To achieve these objectives, the USEPA, as the lead regulatory authority, promulgates national drinking water regulations and develops the mechanism for individual states to assume primary enforcement responsibilities. The SWRCB Division of Drinking Water ("DDW"), formerly the Drinking Water Program under the California Department of Public Health ("CDPH"), has primary responsibility for the regulation of public water supply systems in the State. Drinking water delivered to customers must comply with statutory and regulatory water quality standards designed to protect public health and safety that are now administered by DDW. Metropolitan operates its five water treatment plants under a domestic water supply permit issued by DDW which is amended, as necessary, such as when significant facility modifications occur. Metropolitan operates and maintains water storage, treatment and conveyance facilities, implements watershed management and protection activities, performs inspections, monitors drinking water quality, and submits monthly and annual compliance reports. In addition, public water system discharges to state and federal waters are regulated under general National Pollutant Discharge Elimination System ("NPDES") permits. The SWRCB issued these NPDES permits to Metropolitan which contain numerical effluent limitations, monitoring, reporting, and notification requirements for water discharges from the facilities and pipelines of Metropolitan's water supply and distribution system.

Metropolitan continually monitors new water quality laws and regulations and frequently comments on new legislative proposals and regulatory rules. Metropolitan is currently operating in compliance with all state and federal drinking water regulations and permit requirements.

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 either to withstand a maximum probable seismic event or to minimize the potential repair time in the event of damage. The five pumping plants on the CRA have been buttressed to better withstand seismic events. Other components of the CRA are monitored for any necessary rehabilitation and repair. Metropolitan personnel and independent consultants periodically reevaluate the internal water distribution system's vulnerability to earthquakes. As facilities are evaluated and identified for seismic retrofitting, they are prioritized, with those facilities necessary for delivering or treating water scheduled for upgrade before non-critical facilities. However, major portions of the California Aqueduct and the CRA are located near major earthquake faults, including the San Andreas Fault. A significant earthquake could damage structures and interrupt the supply of water, adversely affecting Metropolitan's revenues and its ability to pay its obligations. Therefore, emergency supplies are stored for use throughout Metropolitan's service area, and a six-month reserve supply of water normally held in local storage (including emergency storage in Diamond Valley Lake) provides reasonable assurance of continuing water supplies during and after such events (assuming there has been no impairment of Metropolitan's internal distribution network).

Metropolitan has an ongoing surveillance program that monitors the safety and structural performance of its 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 projects have been completed to upgrade and expand these shops. A total of nearly \$40 million has been invested to enhance Metropolitan's capacity not only to provide fabrication and coating services for planned rehabilitation work, maintenance activities, and capital projects, but also to 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- California Aqueduct. The California Aqueduct crosses all major faults either by canal at ground level or by pipeline at very shallow depths to ease repair in case of damage from movement along a fault. State Water Project facilities are designed to withstand major earthquakes along a local fault or 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.

State Water Project-Perris Dam. Perris Dam forms Lake Perris, the southernmost terminal reservoir for the State Water Project in Riverside County, with maximum capacity of approximately 130,000 acre-feet of water. Metropolitan uses water from Lake Perris for delivery to customers in Riverside and San Diego counties. Deliveries from the lake are used as a redundant source for the Mills Water Treatment Plant, drought supply from a flexible storage account, and for consumptive use by Metropolitan's customers. 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), DWA (3.0 percent) and CVWD (21.9 percent). DWR recovers the cost of repairs through its annual statement of charges sent to each agency. See "METROPOLITAN EXPENSES—State Water Contract Obligations" in this Appendix A.

Security Measures

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

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

CAPITAL INVESTMENT PLAN

General Description

Metropolitan’s current Capital Investment Plan (the “Capital Investment Plan” or “CIP”) involves 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. Metropolitan’s biennial budget process includes a review of the projected long-term capital needs and the development of a capital expenditure forecast for the ten-year financial forecast, as well as the identification of the capital priorities of Metropolitan over the biennial budget term. 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. In addition, from time to time, when circumstances warrant, Metropolitan’s Board may approve capital expenditures other than or in addition to those contemplated by the CIP at the time of the then current biennial budget.

Projection of Capital Investment Plan Expenditures

The table below sets forth the projected CIP expenditures in the adopted biennial budget for fiscal years 2016-17 and 2017-18, including replacement and refurbishment expenditures, by project type for the fiscal years ending June 30, 2017 through 2021. This estimate is updated every two years 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)

<u>Cost of Service</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Total</u>
Conveyance & Aqueduct	\$ 19,772	\$ 32,934	\$ 32,433	\$ 30,396	\$ 29,042	\$ 144,578
Storage	1,455	--	--	--	--	1,455
Distribution	50,818	80,197	95,411	107,446	126,015	459,887
Treatment	88,345	67,691	55,746	50,292	37,678	299,753
Administrative and General	36,649	18,846	16,325	11,398	7,229	90,448
Hydroelectric	2,960	332	84	468	36	3,880
Total⁽²⁾	\$200,000⁽³⁾	\$200,000	\$200,000	\$200,000	\$200,000	\$1,000,000

Source: Metropolitan.

- (1) Fiscal years 2016-17 and 2017-18 based on the adopted biennial budget for fiscal years 2016-17 and 2017-18. Fiscal years 2018-19 through 2020-21 based on the ten-year financial forecast provided in the adopted biennial budget. Totals are rounded.
- (2) Annual totals include replacement and refurbishment expenditures for fiscal years 2016-17 through 2020-21 of \$115 million, \$159 million, \$176 million, \$182 million, and \$192 million, respectively, for a total of \$823 million for fiscal years 2016-17 through 2020-21.
- (3) Fiscal year 2016-17 capital expenditures are currently estimated to be approximately \$212 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 60 percent of capital program expenditures from current revenues. 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. However, as in prior years, pay-as-you-go funding may be reduced or increased by the Board during the fiscal year.

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 capital expenditures for fiscal year 2014-15 and fiscal year 2015-16. On October 13, 2015, Metropolitan’s Board adopted an ordinance finding that the interests of the district require the use of new revenue bonds in an amount not to exceed \$500 million. On December 17, 2015, Metropolitan issued its \$208,255,000 Water Revenue Bonds, 2015 Authorization Series A to reimburse certain pay-as-you-go capital expenditures and to fund a portion of fiscal year 2016-17 capital expenditures.

Metropolitan’s budget assumptions for the adopted biennial budget for fiscal years 2016-17 and 2017-18 and projections for later years provide for the issuance of approximately \$80 million of additional water revenue bonds to fund or to reimburse prior capital expenditures in each of fiscal years 2016-17 through 2020-21. These revenue bonds could be issued either as Senior Revenue Bonds under the Senior Debt Resolutions or as Subordinate Revenue Bonds under the Subordinate Debt Resolutions (each as defined under “METROPOLITAN EXPENSES–Limitations on Additional Revenue Bonds” in this Appendix A). The cost of these projected bond issues are reflected in the financial projections under, “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A. Metropolitan expects to issue its \$80,000,000 Water Revenue Bonds, 2017 Authorization Series A in March 2017 for the purposes of financing a portion of its capital expenditures through fiscal year 2017-18.

Other Capital Expenses

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 March 8, 2016, Metropolitan’s Board authorized the General Manager to enter into an agreement to purchase certain property from Delta Wetlands Properties, LLC in Contra Costa, San Joaquin, and Solano Counties (the “Delta Islands”). Although no determination has been made, potential applications for these properties include: (1) tidal wetlands; (2) water quality; (3) studies and research; (4) re-creation of food web; (5) subsidence studies or prevention; (6) habitat restoration; (7) mitigation credits; (8) carbon sequestration; (9) emergency preparedness, including seismic preparation and study; (10) water transfers; and (11) using portions for access or staging of a future Delta fix, like the proposed California Water Fix project. On July 18, 2016, escrow closed and purchase of these properties was completed. On December 21, 2016, Metropolitan issued its \$175,000,000 Subordinate Water Revenue Bonds, 2016 Authorization Series A (Taxable) to reimburse itself for the purchase. See “METROPOLITAN EXPENSES–Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations” in this Appendix A.

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 five 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 oxidation retrofit improvements have been completed at three treatment plants: the Henry J. Mills Treatment Plant, the Joseph Jensen Treatment Plant and the Robert B. Diemer Treatment Plant. Completion of the improvements at the F.E. Weymouth plant is expected in 2017. Total oxidation program costs at the F.E. Weymouth plant are estimated to be \$270.0 million. Oxidation retrofit at the Robert A. Skinner plant was substantially completed in December 2009 and operational in 2010, with additional follow-up work planned for completion in June 2018. The total estimated cost for all prior and projected oxidation retrofit facilities program improvements at the five treatment plants is approximately \$1.12 billion, with \$1.07 billion spent through September 2016. Budgeted aggregate capital expenditures for improvements remaining to be completed at the F.E. Weymouth and Robert A. Skinner plants for fiscal years 2016-17 and 2017-18 are \$25 million.

F.E. Weymouth Treatment Plant Improvements. The F.E. Weymouth Treatment Plant, built in 1938, is Metropolitan's oldest water treatment facility. It has been subsequently expanded several times since its original construction. Metropolitan has completed several upgrades and refurbishment/replacement projects to maintain the plant's reliability and improve its efficiency. These include power systems upgrades, 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 filter buildings, and a new chlorine handling and containment facility. Planned projects over the next several years include refurbishment of the plant's filters and settling basins, seismic retrofits to the 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 \$407.1 million, with \$243 million spent through September 2016. Budgeted aggregate capital expenditures for improvements at the Weymouth plant for fiscal years 2016-17 and 2017-18 are \$31.5 million.

Robert B. Diemer Treatment Plant Improvements. The Robert B. Diemer Treatment Plant, built in 1963 and subsequently expanded in 1968, is Metropolitan's second oldest water treatment facility. Several upgrades and refurbishment/replacement projects have been completed at the Diemer plant, including power system upgrades, a new residual solids dewatering facility, new vehicle and plant maintenance facilities, new chemical feed systems and storage tanks, a new chlorine handling and containment facility, construction of a roller-compacted concrete slope stabilization system 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 \$381.1 million, with \$234.5 million spent through September 2016. Budgeted aggregate capital expenditures for improvements at the Diemer plant for fiscal years 2016-17 and 2017-18 are \$42.3 million.

Colorado River Aqueduct Facilities. As previously noted, deliveries through the CRA began in 1941. Through annual inspections and maintenance activities, the performance and reliability of the various components of the CRA are regularly evaluated. Projects under the CRA facilities program are designed to replace or refurbish facilities and components on the CRA system in order to reliably convey water from the Colorado River to Southern California. A variety of projects have been completed over the past 10 years, including, among other things, replacement of high voltage circuit breakers and transformers at the five pumping plant switchyards, refurbishment of operators and power centers on the head gates downstream of the pumping plants, replacement of several miles of deteriorated concrete canal liner, new wastewater systems at the Hinds and Eagle Mountain Pumping Plants, and replacement of the outlet gates and appurtenant electrical, mechanical, and control systems at the Copper Basin Reservoir. Refurbishment or

replacement of many of the electrical system components, including the transformers, circuit breakers and motor control centers, is currently under way. Additionally, many of the mechanical and electrical 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 \$650.2 million. Costs through September 2016 were \$208.2 million. Budgeted aggregate capital expenditures for improvements on the CRA for fiscal years 2016-17 and 2017-18 are \$87.9 million.

Distribution System – Prestressed Concrete Cylinder Pipe. Metropolitan’s distribution system is comprised of approximately 830 miles of pipelines ranging in diameter from 30 inches to over 200 inches. (See “METROPOLITAN’S WATER DELIVERY SYSTEM” in this Appendix A.) 163 miles of the distribution system is made up of prestressed concrete cylinder pipe (“PCCP”). In response to PCCP failures experienced by several water agencies, Metropolitan initiated the PCCP Assessment Program in December 1996 to evaluate the condition of Metropolitan’s PCCP lines and investigate inspection and refurbishment methods. As a result, Metropolitan has identified and made repairs to several sections of PCCP. The costs for these repairs through September 2016 were \$90.3 million. Rather than continue to make spot repairs to pipe segments, Metropolitan has initiated a long-term capital program to rehabilitate approximately 100 miles of PCCP in five pipelines. The estimated cost to reline all 100 miles of PCCP is approximately \$2.6 billion and is expected to be undertaken over a period of approximately 20 years. Budgeted aggregate capital expenditures for PCCP rehabilitation for fiscal years 2016-17 and 2017-18 are \$39.3 million.

Distribution System – Refurbishments and Improvements. In addition to the long-term program to rehabilitate Metropolitan’s PCCP lines, several other components of the distribution system are being refurbished and/or improved. Ongoing projects to ensure the reliability of the distribution system, primarily due to age, include multiple replacements or refurbishments of isolation and control valves and gates, lining replacement on the Etiwanda Pipeline and portions of the Orange County Feeder, a new steel liner for the Bernasconi Tunnel, seismic upgrades to the Santa Ana River Bridge, refurbishment to pressure control and hydroelectric power facilities, system improvements to provide drought relief, and various other upgrades totaling approximately \$228.2 million through September 2016. The currently projected cost estimate for the prior and planned refurbishment or replacement projects, other than the PCCP relining, is \$749.3 million. For fiscal years 2016-17 and 2017-18, budgeted aggregate capital expenditures for improvements on the distribution system, other than PCCP rehabilitation, are \$74.2 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 seven percent of revenues in fiscal year 2015-16. See “–Revenue Allocation Policy and Tax Revenues.” The remaining revenues have been derived principally from the sale of hydroelectric power, interest on investments and additional revenue sources (water standby charges and availability of service charges) beginning in 1992. *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the water revenue bonds issued by Metropolitan.

The basic rate for untreated water service for domestic and municipal uses is \$666 per acre-foot at the Tier 1 level, which became effective January 1, 2017. This rate will increase to \$695 effective January 1, 2018. See “–Rate Structure” and “–Water Rates.” The *ad valorem* tax rate for Metropolitan purposes has gradually been reduced from a peak equivalent rate of 0.1250 percent of full assessed valuation in fiscal year 1945-46 to 0.0035 percent of full assessed valuation for fiscal year 2016-17. The rates charged by Metropolitan represent the cost of Metropolitan wholesale water service to its member agencies, and not the cost of water to the ultimate consumer. Metropolitan does not exercise control over the rates charged by its member agencies or their subagencies to their customers.

Summary of Revenues by Source

The following table sets forth Metropolitan’s sources of revenues for the five fiscal years ended June 30, 2016. The table provides cash basis information for fiscal year 2012, and modified accrual basis information for fiscal years 2013-2016. All information is unaudited. Audited financial statements for the fiscal years ended June 30, 2016 and June 30, 2015 and unaudited financial statements for the six months ended December 31, 2016 and December 31, 2015 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, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED).”

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

	2012	2013	2014	2015	2016
Water Sales ⁽²⁾	\$1,062	\$1,283	\$1,485	\$1,383	\$1,166
Net Tax Collections ⁽³⁾	90	95	95	104	108
Additional Revenue Sources ⁽⁴⁾	167	173	182	199	200
Interest on Investments	18	(2)	19	16	17
Hydroelectric Power Sales	31	25	15	8	7
Other Revenues ⁽⁵⁾	54	23	19	163	246
Total Receipts	<u>\$1,422</u>	<u>\$1,597</u>	<u>\$1,815</u>	<u>\$1,873</u>	<u>\$1,744</u>

Source: Metropolitan.

- (1) Does not include any proceeds from the sale of bonded indebtedness.
- (2) Gross revenues in each year are for sales in the twelve months ended June 30 of such year. Water sales revenues include revenues from water wheeling and exchanges.
- (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.
- (5) Includes miscellaneous revenues and Build America Bonds (BABs) subsidy payment of \$13.3 million, \$12.7 million, \$12.3 million, \$12.3 million, and \$12.3 million, in fiscal years 2011-12 through 2015-16, respectively. In fiscal years 2014-15 and 2015-16, includes \$142 million and \$222 million of water conservation and water purchase expenditures, funded from a like amount of funds transferred from the Water Management Fund.

Revenue Allocation Policy and Tax Revenues

The Board determines the water revenue requirement for each fiscal year after first projecting the *ad valorem* tax levy for that year. The tax levy for any year is subject to limits imposed by the State Constitution, the Act and Board policy and to the requirement under the State Water Contract that in the event that Metropolitan fails or is unable to raise sufficient funds by other means, Metropolitan must levy upon all property within its boundaries not exempt from taxation a tax or assessment sufficient to provide for all payments under the State Water Contract. See “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A. From fiscal year 1990-91 through 2012-13, and pursuant to the Act, 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 Metropolitan’s fiscal integrity. For each fiscal year since 2013-14, the Board has exercised that authority and voted to suspend the tax limit clause in the Act, maintaining the fiscal year 2012-13 *ad valorem* tax rate for fiscal years 2013-14 through 2016-17. 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 Senior Debt Resolutions (defined herein under “METROPOLITAN EXPENSES–Limitations on Additional Revenue Bonds”).

Water Sales Revenues

General; 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 currently provides two classes of water service (1) full service treated and untreated, and (2) wheeling service. See “–Classes of Water Service.”

No member agency of Metropolitan is obligated to purchase water from Metropolitan. However, 21 of Metropolitan’s 26 member agencies have entered into 10-year voluntary water supply purchase orders (“Purchase Orders”) effective through December 31, 2024. See “–Member Agency Purchase Orders.” Consumer demand and locally supplied water vary from year to year, resulting in variability in water 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, 2016. Water sales revenues of Metropolitan for the four fiscal years ended June 30, 2013 through June 30, 2016, 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, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED).”

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

Year	Acre-Feet ⁽¹⁾ Sold	Water Sales ⁽²⁾ (in millions)	Dollars Per Acre-Foot ⁽³⁾	Average Dollars Per 1,000 Gallons
2012	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
2016	1,623,052	1,166.0	718	2.20

Source: Metropolitan.

- (1) Year ended April 30 for fiscal year 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) Water Sales in fiscal year 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 through 2015-16 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.
- (3) 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” for a description of water rates and classes of service.

Principal Customers

Total water sales accrued for the fiscal year ended June 30, 2016 were 1.62 million acre-feet, generating \$1.17 billion in water sales revenues for such period. Metropolitan’s ten largest water customers in the year ended June 30, 2016 are shown in the following table, on an accrual basis. The SDCWA has filed litigation challenging Metropolitan’s rates. See “–Litigation Challenging Rate Structure.”

TEN LARGEST WATER CUSTOMERS Year Ended June 30, 2016 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	\$ 270.9	23.2%	465,568	28.7%
City of Los Angeles	224.3	19.2	332,527	20.5
MWD of Orange County	140.3	12.0	171,666	10.6
West Basin MWD	100.0	8.6	107,319	6.6
Calleguas MWD	77.7	6.7	83,346	5.1
Eastern MWD	53.1	4.6	62,631	3.9
Western MWD	51.6	4.4	65,532	4.0
Three Valleys MWD	42.5	3.6	54,356	3.3
Central Basin MWD	35.5	3.0	46,745	2.9
City of Long Beach	24.3	2.1	27,684	1.7
Total	\$1,020.2	87.5%	1,417,374	87.3%
Total Water Sales Revenues	\$1,166.0	Total Acre-Feet	1,623,052	

Source: Metropolitan.

(1) Includes wheeling and exchange water sales, revenues and deliveries.

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 rate structure recovers supply costs through a two-tiered price structure. The Tier 1 Supply Rate supports a regional approach through the uniform, postage stamp rate. The Tier 1 Supply Rate is calculated as the amount of the total supply revenue requirement that is not covered by the Tier 2 Supply Rate divided by the estimated amount of Tier 1 water sales. The Tier 2 Supply Rate is a volumetric rate that reflects Metropolitan’s cost of purchasing water transfers north of the Delta. Member agencies are charged the Tier 1 or Tier 2 Water Supply Rate for water purchases, as described under “–Member Agency Purchase Orders.”

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

Water Stewardship Rate. The Water Stewardship Rate (WSR) provides a dedicated source of funding for conservation and local resources development through a uniform, volumetric rate. The WSR is

charged to each acre-foot of water delivered by Metropolitan, regardless of the water being transported. All users (member agencies and third-party wheelers) benefit from the system capacity made available by investments in Demand Management Programs like Metropolitan’s Conservation Credits Program and Local Resources Program. Therefore, all users pay the WSR.

System Power Rate. The System Power Rate (SPR) recovers the cost of energy required to pump water to Southern California through the State Water Project and CRA. The cost of power is recovered through a uniform, volumetric rate. The SPR is applied to all deliveries of Metropolitan water to member agencies. Wheeling parties pay for actual cost (not system average) of power needed to move the water. Member agencies engaging in wheeling transaction of up to one year pay the wheeling rate (consisting of the actual cost of power, SAR, WSR, and an administrative fee). Other wheeling transactions are pursuant to individual contracts.

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

The amount of each of these rates since January 1, 2012, is shown in the table entitled “SUMMARY OF WATER RATES” under “–Water Rates.”

Member Agency Purchase Orders

The current rate structure allows member agencies to choose to purchase water from Metropolitan by means of a Purchase Order. Purchase Orders are voluntary agreements that determine the amount of water that a member agency can purchase at the Tier 1 Supply Rate. They allow member agencies to purchase a greater amount of water at the lower Tier 1 Supply Rate than would otherwise be authorized by the Administrative Code. In exchange for the higher Tier 1 Maximum, the member agency commits to purchase a specific amount of water (based on past purchase levels) over the term of the agreement. Such agreements allow member agencies to manage costs and provide Metropolitan with a measure of secure revenue.

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

The key terms of the Purchase Orders include:

- A ten-year term, effective January 1, 2015 through December 31, 2024;
- A higher Tier 1 limit based on the Base Period Demand, determined by the member agency’s choice between (1) the Revised Base Firm Demand, which is the highest fiscal year purchases during the 13-year period of fiscal year 1989-90 through fiscal year 2001-02, or (2) the highest year purchases in the most recent 12-year period of fiscal year 2002-03 through 2013-14. The demand base is unique for each member agency, reflecting its use of Metropolitan’s system water over time;
- An overall purchase commitment by the member agency based on the Demand Base period chosen, times ten to reflect the ten-year Purchase Order term. Those agencies choosing the more recent 12-year period may have a higher Tier 1 Maximum and commitment. The commitment is also unique for each member agency;
- The opportunity to reset the Base Period Demand using a five-year rolling average;

- Any obligation to pay the Tier 2 Supply Rate will be calculated over the ten-year period, consistent with the calculation of any Purchase Order commitment obligation; and
- An appeals process for agencies with unmet purchase commitments that will allow each acre-foot of unmet commitment to be reduced by the amount of production from a local resource project that commences operation on or after January 1, 2014.

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

Other Charges

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

Readiness-to-Serve Charge. The Readiness-to-Serve Charge ("RTS") recovers the cost of the portion of the system that is available to provide emergency service and available capacity during outages and hydrologic variability. The RTS is a fixed charge that is allocated among the member agencies based on a ten-fiscal year rolling average of firm demands. Water transfers and exchanges are included for purposes of calculating the ten-fiscal-year rolling average. The Standby Charge, described below, will continue to be collected at the request of member agency and applied as a direct offset to the member agency's RTS obligation. The RTS generated \$154.0 million in fiscal year 2013-14, \$162.0 million in 2014-15, and \$155.5 million in 2015-16. Based on the adopted rates and charges, the RTS is projected to generate \$144 million in fiscal year 2016-17 and \$137.5 million in fiscal year 2017-18.

Water Standby Charges. The Standby Charge is authorized by the State Legislature and has been levied by Metropolitan since fiscal year 1992-93. Metropolitan will continue to levy the Standby Charge only within the service areas of the member agencies that request that the Standby Charge be utilized to help fund a member agency's RTS obligation. See "-- Readiness-to-Serve Charge" above. The Standby Charge for each acre or parcel of less than an acre will vary from member agency to member agency, reflecting current rates, which have remained the same since fiscal year 1993-94, and range from \$6.94 to \$15 for each acre or parcel less than an acre within Metropolitan's service area, subject to specified exempt categories. Standby charges are assessments under the terms of Proposition 218, a State constitutional ballot initiative approved by the voters on November 5, 1996, but Metropolitan's current standby charges are exempt from Proposition 218's procedural requirements. See "--California Ballot Initiatives."

Twenty-two member agencies collect their RTS charges through standby charges. For fiscal years 2013-14, 2014-15, and 2015-16, RTS charges collected by means of such standby charges were \$41.7 million, \$41.7 million, and \$42.8 million, respectively.

Capacity Charge. The Capacity Charge recovers costs incurred to provide peaking capacity within Metropolitan's distribution system. The Capacity Charge provides a price signal to encourage agencies to reduce peak demands on the distribution system and to shift demands that occur during the May 1 through September 30 period into the October 1 through April 30 period. This results in more efficient utilization of Metropolitan's existing infrastructure and deferring capacity expansion costs. Each member agency will pay the Capacity Charge per cubic feet per second based on a three-year trailing maximum peak day demand. Effective January 1, 2014, the Capacity Charge was \$8,600 per cubic feet per second. The Capacity Charge was \$11,100 per cubic feet per second on January 1, 2015, and \$10,900 per cubic feet per second on January 1, 2016, and will be \$8,000 per cubic feet per second on January 1, 2017, and \$8,700 per cubic feet per second on January 1, 2018. The Capacity Charge is projected to generate \$39.7 million in fiscal year 2016-17 and \$35.2 million in fiscal year 2017-18.

Classes of Water Service

Metropolitan offers two classes of water service:

(1) *Full Service Water* - Full service water service, formerly known as non-interruptible water service, includes water sold to member agencies for domestic and municipal uses; and

(2) *Wheeling Service* - Wheeling Service refers to the use of Metropolitan’s facilities, including its rights to use State Water Project facilities, to transport water not owned or controlled by Metropolitan to its member public agencies, in transactions entered into by Metropolitan for a period of up to one year.

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

Current Services and Rate Components

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

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

(1) *Conjunctive Use Program.* The Conjunctive Use Program is operated through individual agreements with member and retail agencies for groundwater storage within Metropolitan’s service area. Wet-year imported supplies are stored to enhance reliability during dry, drought, and emergency conditions. Metropolitan has the option to call water stored in the groundwater basins for the participating member agency pursuant to its contractual conjunctive use agreement. At the time of the call, the member agency pays the prevailing rate for that water, but the deliveries are excluded from the calculation of the Capacity Charge because Conjunctive Use Program deliveries are made at Metropolitan’s Discretion. See “REGIONAL WATER RESOURCES–Local Water Supplies.”

(2) *Emergency Storage Program.* The Emergency Storage Program is used for delivering water for emergency storage in surface water reservoirs and storage tanks. Emergency Storage Program purposes include initially filling a newly constructed reservoir or storage tank and replacing water used during an emergency.

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

Current Programs and Rate Components

<u>Full Service Program</u>	Rates & Charges That Apply					
	<u>System Access</u>	<u>Water Stewardship</u>	<u>System Power</u>	<u>Tier 1/ Tier 2</u>	<u>Readiness to Serve</u>	<u>Capacity Charge</u>
Conjunctive Use Program	Yes	Yes	Yes	Yes	Yes	No
Emergency Storage Program	Yes	Yes	Yes	No*	No	No

*Emergency Storage Program pays the Tier 1 Supply Rate; purchases under Emergency Storage program do not count towards a member agency’s Tier 1 Maximum.

Water Rates

The following table sets forth Metropolitan’s water rates by category beginning January 1, 2012. 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 also “–Litigation Challenging Rate Structure” for a description of litigation challenging Metropolitan’s water rates.

SUMMARY OF WATER RATES (Dollars per Acre-Foot)

	SUPPLY RATE		SYSTEM ACCESS RATE	WATER STEWARDSHIP RATE	SYSTEM POWER RATE	TREATMENT SURCHARGE
	Tier 1	Tier 2				
January 1, 2012	\$164 ⁽¹⁾	\$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
January 1, 2017*	\$201	\$295	\$289	\$52	\$124	\$313
January 1, 2018*	\$209	\$295	\$299	\$55	\$132	\$320

	FULL SERVICE TREATED ⁽²⁾		FULL SERVICE UNTREATED ⁽³⁾		INTERIM AGRICULTURAL PROGRAM		REPLENISHMENT RATE	
	Tier 1	Tier 2	Tier 1	Tier 2	Treated	Untreated	Treated	Untreated
	January 1, 2012	\$794	\$920	\$560	\$686	\$765	\$537	\$651
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	**	**	**	**
January 1, 2017*	\$979	\$1,073	\$666	\$760	**	**	**	**
January 1, 2018*	\$1,015	\$1,101	\$695	\$781	**	**	**	**

Source: Metropolitan.

* Rates effective January 1, 2017 and January 1, 2018 were adopted by Metropolitan’s Board on April 12, 2016.

** The Interim Agricultural Water Program and Replenishment Service Program were discontinued after 2012. The Interim Agricultural Water 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. 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.

(1) Includes \$58 per acre-foot Delta Supply Surcharge for January 1, 2012.

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

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

Financial Reserve Policy

Metropolitan's reserve policy 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. If 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 less than 1.2 times, funds above the target reserve level may be utilized for funding of capital expenditures or for the redemption, defeasance or purchase of outstanding bonds or commercial paper, as determined by the Board. If Metropolitan's fixed charge coverage ratio, is at or above 1.2 times, funds above the target may be used for any lawful purpose of Metropolitan, as determined by the Board. See "CAPITAL INVESTMENT PLAN–Capital Investment Plan Financing" in this Appendix A.

At June 30, 2016, unrestricted reserves, which consist of the Water Rate Stabilization Fund and the Revenue Remainder Fund, totaled \$475 million on a modified accrual basis. As of June 30, 2016, the minimum reserve requirement was \$205 million and the target reserve level was \$490 million.

From time to time, Metropolitan's Board approves the use of unrestricted reserves. 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. 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. Metropolitan took delivery of this water in 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–Colorado River Aqueduct – Colorado River Operations: Surplus and Shortage Guidelines – Interim Surplus Guidelines" in this Appendix A.

Due to SDCWA's litigation challenging Metropolitan's rates and pursuant to the exchange agreement between Metropolitan and SDCWA, Metropolitan is required to set aside funds based on the quantities of exchange water that Metropolitan provides to SDCWA and the amount of charges disputed by SDCWA. This amount included disputed payments and interest earned thereon, which is based on the rate earned by Metropolitan's investment portfolio. In April 2016, Metropolitan transferred these funds from unrestricted financial reserves to a new designated fund, the Exchange Agreement Set-Aside Fund. As of December 31, 2016, Metropolitan had set aside \$278.7 million in the Exchange Agreement Set-Aside Fund. This amount includes disputed payments and interest earned thereon based on the rate earned by Metropolitan's investment portfolio. The amounts held do not include the statutory prejudgment interest, post-judgment interest, attorneys' fees, or costs awards, none of which the exchange agreement requires to be held. 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 payments disputed by SDCWA, until the litigation, including all appeals, is concluded. 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.

As described below, Metropolitan has executed two \$200 million Short-Term Revolving Credit Facilities (as defined below), under which Metropolitan may borrow from time-to-time. Funds drawn under

the Short-Term Revolving Credit Facilities may be used for any lawful purpose. In April 2016, Metropolitan drew \$125 million from each Short-Term Revolving Credit Facility (as defined below), for a total of \$250 million, and deposited these amounts in Metropolitan's unrestricted financial reserves. An additional draw of approximately \$50 million is expected by the end of June 2017, with such amount to be deposited in Metropolitan's unrestricted financial reserves. See "METROPOLITAN EXPENSES—Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – Short-Term Revolving Credit Facilities" in this Appendix A.

Metropolitan projects that its unrestricted reserves as of June 30, 2017 will be approximately \$378 million. This amount does not include funds held in the Exchange Agreement Set-Aside Fund. This projection is based on the assumptions set forth in the table entitled "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" under "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A. In addition, this projection is based on the assumption that Metropolitan's Board will not authorize the use of any additional amounts in the unrestricted reserves.

California Ballot Initiatives

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters on November 5, 1996 adding Articles XIIC and XIID to the California Constitution. Article XIID 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 XIID. Fees for retail water service by Metropolitan's member agencies or their agencies are subject to the requirements of Article XIID.

Article XIID also imposes certain procedures with respect to assessments. Under Article XIID, "standby charges" are considered "assessments" and must follow the procedures required for "assessments," unless they were in existence on the effective date of Article XIID. Metropolitan has imposed its water standby charges since 1992 and therefore its current standby charges are exempt from the Article XIID procedures. Changes to Metropolitan's current standby charges could require notice to property owners and approval by a majority of such owners returning mail-in ballots approving or rejecting any imposition or increase of such standby charge. Twenty-two member agencies have elected to collect all or a portion of their readiness-to-serve charges through standby charges. See "–Other Charges – Readiness-to-Serve Charge" and "– Water Standby Charges" above. Even if Article XIID 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 XIIC makes all taxes general or special taxes and imposes voting requirements for each kind of tax. It also extends the people's initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC 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 XIIC of the California Constitution to include levies, charges and exactions imposed by local governments, except for charges imposed for benefits or privileges or for services or products granted to the payor (and not provided to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation and are allocated in a fair or reasonable manner; fees for the use of local governmental property; fines and penalties imposed for violations of law; real property development fees; and assessments and property-related fees imposed under Article XIID of the California Constitution.

Special taxes imposed by a special district such as Metropolitan are subject to approval by two-thirds of the electorate 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 on appeal. (See "--Litigation Challenging Rate Structure.")

Propositions 218 and 26 were adopted as measures that qualified for the ballot pursuant to the State's initiative process. 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.

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."

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 certain 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, MWDOC 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 adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with the State Water Contract and the Water Stewardship Rate to water supply rates and not to transportation rates. Rates in effect in prior years are not

challenged in this lawsuit. 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 was adopted in 2001 and has been in place since 2003. Nevertheless, to the extent that a final court ruling invalidates Metropolitan's adopted rates, Metropolitan will be obligated to reconsider and modify rates to comply with any final court rulings related to Metropolitan's rates. While components of the rate structure and costs may change as a result of any final ruling, 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 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"); and illegality of the "rate structure integrity" provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. The "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" 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" 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 trial 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 trial court found that there was not sufficient evidence in the administrative record 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 trial court's decision was based on its conclusion that these rates are unfair to wheelers. The trial 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 found in favor of SDCWA on both claims and that SDCWA is entitled to contract damages in the amount of \$188,295,602 plus interest. On October 9 and 30, 2015, the trial court granted SDCWA's motion for prejudgment interest at the statutory rate of 10 percent on these damages. The prejudgment interest award through entry of judgment is \$46,637,180. After entry of judgment, post-judgment interest began accruing at the statutory rate of 7 percent. 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 January 21, 2016, the trial court awarded \$320,084 in costs to SDCWA, after deducting amounts based on Metropolitan's motion. On March 24, 2016, the trial court awarded \$8,910,354 in attorneys' fees to SDCWA, rejecting its demand for over \$17.0 million. Metropolitan filed a Notice of Appeal of the Judgment and Writ in each case, and SDCWA filed a Notice of Cross-Appeal of the court's ruling on the rate structure integrity provision claim and the attorneys' fees order. Appellate briefing by the parties was completed on October 28, 2016. No date for oral argument has been set. Metropolitan is unable to assess at this time the likelihood of success of this litigation, including the appeal, or any future claims.

Due to SDCWA's litigation challenging Metropolitan's rates, and pursuant to the exchange agreement between Metropolitan and SDCWA, as of December 31, 2016, Metropolitan held \$278.7 million in a designated fund, the Exchange Agreement Set-Aside Fund. See "Financial Reserve Policy." This amount includes both SDCWA's disputed payments and interest earned thereon, which is based on the rate earned by Metropolitan's investment portfolio. 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 payments disputed by SDCWA, until the litigation, including all appeals, is concluded. The amounts held do not include the statutory prejudgment interest, post-judgment interest, attorneys' fees, or costs awards, none 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 San Francisco Superior Court ordered that the case be stayed. The stay may be lifted upon motion by any party. On November 20, 2015, SDCWA filed a motion to partially lift the stay. On December 21, 2015, the trial court decided that motion and the case remains stayed. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On April 13, 2016, SDCWA filed a new lawsuit that alleges all rates and charges for 2017 and 2018 adopted by Metropolitan's Board on April 12, 2016 violate the California Constitution, statutes, and common

law. The Petition for Writ of Mandate and Complaint asserts misallocation of costs as alleged in the previous cases listed above and additional claims of over-collection and misallocation of costs and procedural violations, and states SDCWA intends to amend to allege further claims including breach of contract. In a claim letter dated May 2, 2016, SDCWA asserted three breaches of the exchange agreement: the same breach alleged in the previous cases listed above, breach of the set-aside provision noted above, and breach of a provision concerning characterizing exchange water for certain purposes in the same manner as local water of other member agencies. On June 30, 2016, the nine member agencies that are interested parties to the 2010, 2012, and 2014 cases filed answers to also join the 2016 case as interested parties in support of Metropolitan. On October 27, 2016, SDCWA filed a Motion for Leave to File Amended Complaint alleging the same exchange agreement breach alleged in the previous cases listed above and breach of the set-aside provision noted above relating to the manner in which Metropolitan has set aside the amounts. The proposed amended petition/complaint also requests a judicial declaration that, if a judgment is owed to SDCWA under the exchange agreement, SDCWA will not be required to pay any portion of that judgment, and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of services provided or, alternatively, a reduction in SDCWA's future fees. On September 27, 2016, the case was transferred to San Francisco Superior Court. On November 10, 2016, pursuant to stipulation by the parties, the court ordered that the case be stayed pending final resolution of the appeals of the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

Other Revenue Sources

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 the 16 facilities is approximately \$176.1 million. Since 2000, annual energy generation sales revenues have ranged between \$7.5 million and nearly \$29.6 million. Energy generation sales revenues were \$8.5 million in fiscal year 2014-15 and \$7.5 million in fiscal year 2015-16. Low State Water Project supplies and reduced demands due to mandatory conservation resulted in diminished flows thorough Metropolitan's pipelines and hydroelectric power plants and decreased revenues.

Investment Income. In fiscal years 2013-14, 2014-15, and 2015-16, Metropolitan's earnings on investments, including adjustments for gains and losses and premiums and discounts, including construction account and trust fund earnings, excluding gains and losses on swap terminations, on an accrual basis (audited) were \$21.2 million, \$22.3 million, and \$19.4 million, respectively.

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 securities, 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 EXPENSES—Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations” in this Appendix A. Metropolitan’s current investments comply with the Statement of Investment Policy.

As of December 31, 2016, the total market value (cash-basis) of all Metropolitan funds was \$1.37 billion, including bond reserves of \$53.9 million. The market value of Metropolitan’s investment portfolio is subject to market fluctuation and volatility and general economic conditions. Over the three years ended December 31, 2016, the market value of the month-end balance of Metropolitan’s investment portfolio (excluding bond reserve funds) averaged approximately \$1.23 billion. The minimum month-end balance of Metropolitan’s investment portfolio (excluding bond reserve funds) during such period was approximately \$936.3 million on August 31, 2016. See Footnote 3 to Metropolitan’s audited financial statements in Appendix B for additional information on the investment portfolio.

Metropolitan’s administrative code requires that (1) the Treasurer provide an annual Statement of Investment Policy for approval by Metropolitan’s Board, (2) the Treasurer provide a monthly investment report to the Board and the General Manager showing by fund the description, maturity date, yield, par, cost and current market value of each security, and (3) the General Counsel review as to eligibility the securities invested in by the Treasurer for that month and report his or her determinations to the Board. The Board approved the Statement of Investment Policy for fiscal year 2016-17 on June 14, 2016.

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, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)” for a description of Metropolitan’s investments at September 30, 2016.

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 December 31, 2016, such managers were managing approximately \$342.3 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 EXPENSES

General

The following table sets forth a summary of Metropolitan’s expenses, by major function, for the five years ended June 30, 2016. The table provides cash basis information for fiscal year 2012, and modified accrual basis information for fiscal years 2013-2016. All information is unaudited. Expenses of Metropolitan for the fiscal years ended June 30, 2016 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 YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED).”

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

	2012	2013	2014	2015	2016
Operation and Maintenance Costs ⁽¹⁾	\$ 425	\$ 456	\$ 512	\$ 697	\$ 799
Total State Water Project ⁽²⁾	536	480	465	436	512
Total Debt Service	323	339	384	303	332
Construction Disbursements from Revenues ⁽³⁾	44	55	117	210	273
Other ⁽⁴⁾	3	5	6	7	6
Total Disbursements (net of reimbursements)	<u>\$1,331</u>	<u>\$1,335</u>	<u>\$1,484</u>	<u>\$1,653</u>	<u>\$1,922</u>

Source: Metropolitan.

- (1) Includes operation and maintenance, debt administration, conservation and local resource programs, CRA power, and water supply expenses. For fiscal years 2014-15 and 2015-16, includes \$142 million, and \$222 million, respectively, of conservation projects funded from transfers from the Water Management Fund.
- (2) Includes both operating and capital expense portions.
- (3) At the discretion of the Board, in any given year, Metropolitan may increase or decrease funding available for construction disbursements to be paid from revenues. Includes \$160 million for acquiring properties in Riverside and Imperial Counties, funded by \$160 million from the Replacement and Refurbishment Fund Reserves. Does not include expenditures of bond proceeds.
- (4) Includes operating equipment.

Revenue Bond Indebtedness and Other Obligations

As of February 1, 2017, Metropolitan had total outstanding indebtedness, secured by a lien on Net Operating Revenues, of \$4.49 billion. This indebtedness is comprised of \$4.06 billion water revenue bonds, issued under the Senior Debt Resolutions (defined below), which includes \$3.01 billion fixed rate revenue bonds, and \$1.04 billion variable rate revenue bonds; \$250.0 million Short-Term Revolving Credit Facilities, which pay a variable rate, and are on parity with the senior lien water revenue bonds; \$175.0 million subordinate water revenue bonds issued under the Subordinate Debt Resolutions (defined below), which pay a variable rate; and \$8.6 million State of California Revolving Fund Loan, on parity with the subordinate water revenue bonds. In addition, Metropolitan has \$493.6 million of fixed-payor interest rate swaps which provides a fixed interest rate hedge to an equivalent amount of variable rate debt. Metropolitan's revenue bonds and other revenue obligations are more fully described in this section below.

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

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

The laws governing Metropolitan's ability to issue water revenue bonds currently provide two additional limitations on indebtedness that may be incurred by Metropolitan. The Act provides for a limit on general obligation bonds, water revenue bonds and other evidences of indebtedness at 15 percent of the assessed value of all taxable property within Metropolitan's service area. As of February 1, 2017, outstanding general obligation bonds, water revenue bonds and other evidences of indebtedness in the amount of \$4.58 billion represented approximately 0.18 percent of the fiscal year 2016-17 taxable assessed valuation of \$2,583 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, 2016 were \$6.68 billion. The aggregate amount of revenue bonds outstanding as of February 1, 2017 was \$4.23 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, 2016 and June 30, 2015, 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 SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED).”

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

Variable Rate Exposure Policy

As of February 1, 2017, Metropolitan had outstanding \$1.30 billion of variable rate obligations issued under the Senior Debt Resolutions, including variable rate Senior Revenue Bonds (described under “–Outstanding Senior Revenue Bonds and Senior Parity Obligations– Variable Rate and Swap Obligations”) and Senior Parity Obligations incurred pursuant to Short-Term Revolving Credit Facilities (described under “–Outstanding Senior Revenue Bonds and Senior Parity Obligations–Senior Parity Obligations–Short-Term Revolving Credit Facilities” below). In addition, as of February 1, 2017, all of Metropolitan’s \$175 million of outstanding Subordinate Revenue Bonds issued under the Subordinate Debt Resolutions were variable rate obligations (described under “–Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations–Subordinate Revenue Bonds” below).

As of February 1, 2017, of Metropolitan’s \$1.47 billion of variable rate obligations, \$493.6 million of such variable rate demand obligations are treated by Metropolitan as fixed rate debt, by virtue of interest rate swap agreements (described under “–Outstanding Senior Revenue Bonds and Senior Parity Obligations–Variable Rate and Swap Obligations–Interest Rate Swap Transactions”), for the purpose of calculating debt service requirements. The remaining \$974.7 million of variable rate obligations represent approximately 21.7 percent of total outstanding water revenue secured indebtedness (including Senior Revenue Bonds and Senior Parity Debt and Subordinate Revenue Bonds and Subordinate Debt), as of February 1, 2017.

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.

Outstanding Senior Revenue Bonds and Senior Parity Obligations

Senior Revenue Bonds

The water revenue bonds issued under the Senior Debt Resolutions outstanding as of February 1, 2017, are set forth below:

Name of Issue	Principal Outstanding
Water Revenue Refunding Bonds, 1993 Series A	\$ 70,340,000
Water Revenue Bonds, 2000 Authorization, Series B-3 ⁽¹⁾	88,800,000
Water Revenue Bonds, 2006 Authorization, Series A	302,245,000
Water Revenue Refunding Bonds, 2008 Series B	119,830,000
Water Revenue Refunding Bonds, 2008 Series C	27,255,000
Water Revenue Bonds, 2008 Authorization, Series A	174,530,000
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	10,360,000
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	50,005,000
Water Revenue Refunding Bonds, 2009 Series E	12,715,000
Water Revenue Bonds, 2010 Authorization, Series A ⁽²⁾	250,000,000
Water Revenue Refunding Bonds, 2010 Series B	74,325,000
Water Revenue Refunding Bonds, 2011 Series A-1 ⁽¹⁾	64,305,000
Water Revenue Refunding Bonds, 2011 Series A-2 ⁽¹⁾	49,920,000
Water Revenue Refunding Bonds, 2011 Series A-3 ⁽¹⁾	64,300,000
Water Revenue Refunding Bonds, 2011 Series A-4 ⁽¹⁾	49,920,000
Water Revenue Refunding Bonds, 2011 Series B	5,080,000
Water Revenue Refunding Bonds, 2011 Series C	147,435,000
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	175,635,000
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 C-1–C-3	30,335,000
Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D ⁽¹⁾	38,465,000
Water Revenue Refunding Bonds, 2014 Series E	86,060,000
Water Revenue Refunding Bonds, 2014 Series G-2–G-5	43,275,000
Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1 and A-2 ⁽¹⁾	188,900,000
Water Revenue Bonds, 2015 Authorization, Series A	208,255,000
Water Revenue Refunding Bonds, 2016 Series A	239,455,000
Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1 and B-2 ⁽¹⁾	103,670,000
Total	\$4,055,600,000

Source: Metropolitan.

(1) Outstanding variable rate obligation.

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

Variable Rate and Swap Obligations

As of February 1, 2017, Metropolitan had outstanding \$1.30 billion of variable rate obligations issued under the Senior Debt Resolutions, including variable rate Senior Revenue Bonds (described under this caption “–Variable Rate and Swap Obligations”) and Senior Parity Obligations incurred pursuant to Short-Term Revolving Credit Facilities (described under “–Short-Term Revolving Credit Facilities” below).

The outstanding variable rate Senior Revenue Bonds include 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.

Index Tender Bonds. The Index Tender Bonds have substantially similar terms and conditions; however, the 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 plus a spread. The Index Tender Bonds outstanding as of February 1, 2017, are summarized in the following table:

Index Tender Bonds

<u>Series</u>	<u>Date of Issuance</u>	<u>Original Principal Amount Issued</u>	<u>Next Scheduled Mandatory Tender Date</u>	<u>Maturity Date</u>
2009 A-2	May 20, 2009	\$104,180,000	July 10, 2017	July 1, 2030
2011 A-1	June 2, 2011	64,305,000	July 10, 2017	July 1, 2036
2011 A-2	June 2, 2011	49,920,000	March 27, 2018	July 1, 2036
2011 A-3	June 2, 2011	64,300,000	July 10, 2017	July 1, 2036
2011 A-4	June 2, 2011	49,920,000	March 27, 2018	July 1, 2036
2012 B-1	April 27, 2012	49,295,000	March 27, 2018	July 1, 2027
2012 B-2	April 27, 2012	49,290,000	March 27, 2018	July 1, 2027
2013 E ⁽¹⁾	July 2, 2013	<u>104,820,000</u>	June 5, 2017	July 1, 2030
Total		\$536,030,000		

Source: Metropolitan.

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

The Index Tender Bonds are subject to mandatory tender under certain circumstances, including on certain scheduled mandatory tender dates (unless earlier remarketed or otherwise retired). 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 any tendered Index Tender Bonds is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. Purchase price payments of Index Tender Bonds are subordinate to both the Senior Revenue Bonds and Senior Parity Obligations and to the Subordinate Revenue Bonds and Subordinate Parity Obligations. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of 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 Senior Debt Resolutions. 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 an obligation payable on parity with the Senior Revenue Bonds and Senior Parity Obligations and senior to the Subordinate Revenue Bonds and Subordinate Parity Obligations.

Self-Liquidity Bonds. As of February 1, 2017, Metropolitan had \$314.8 million of outstanding Self-Liquidity Bonds issued under the Senior Debt Resolutions. 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. Purchase price payments of Self-Liquidity Bonds are subordinate to both the Senior Revenue Bonds and Senior Parity Obligations and to the Subordinate Revenue Bonds and Subordinate Parity Obligations. In addition, Metropolitan’s investment policy permits it to purchase tendered Self-Liquidity Bonds as an investment for its investment portfolio (other than from amounts in its investment portfolio consisting of bond reserve funds). Thus, while Metropolitan is only obligated to purchase tendered Self-Liquidity Bonds from Net Operating Revenues, it may use the cash and investments in its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds and amounts posted as collateral with interest rate swap counterparties as described below) to purchase tendered Self-Liquidity Bonds. Metropolitan has not secured any liquidity facility or letter of credit to pay the purchase price of any tendered Self-Liquidity Bonds; however, Metropolitan has entered into a Revolving Credit Agreement (as described below) pursuant to which it may make borrowings for the purpose of paying the purchase price of Self-Liquidity Bonds. See “–Senior Parity Obligations – Wells Fargo Revolving Credit Agreement.” 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 Senior Debt Resolutions.

The following table lists the outstanding Self-Liquidity Bonds as of February 1, 2017.

Self-Liquidity Bonds

Name of Issue	Principal Outstanding
Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D	\$ 87,445,000
Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D	38,465,000
Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1 and A-2	<u>188,900,000</u>
Total	\$314,810,000

Source: Metropolitan.

Liquidity Supported Bonds. The interest rates for Metropolitan’s other variable rate demand obligations issued under the Senior Debt Resolutions, totaling \$192.5 million as of February 1, 2017, are reset on a daily basis. Such variable rate demand obligations are supported by Standby Bond Purchase Agreements between Metropolitan and liquidity providers that provide for purchase of variable rate bonds by the applicable liquidity provider upon tender of such variable rate bonds and a failed remarketing. Metropolitan has secured its obligation to repay principal and interest advanced under the Standby Bond Purchase Agreements as Senior Parity Obligations. A decline in the creditworthiness of a liquidity provider will likely result in an increase in the interest rate of the applicable variable rate bonds, as well as an increase in the risk of a failed remarketing of such tendered variable rate bonds. Variable rate bonds purchased by a liquidity provider 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 under the terms of the current liquidity facilities 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 February 1, 2017.

Liquidity Facilities and Expiration Dates

Liquidity Provider	Bond Issue	Principal Outstanding	Facility Expiration
Wells Fargo Bank, N.A.	2000 Authorization Series B-3	\$ 88,800,000	April 2017 ⁽¹⁾
Landesbank Hessen- Thuringen Girozentrale (Helaba)	2016 Series B-1 and Series B-2	<u>\$103,670,000</u>	September 2019
Total		\$192,470,000	

Source: Metropolitan.

(1) Metropolitan expects to replace such liquidity facility prior to its expiration date.

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

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

Metropolitan’s obligations to make regularly scheduled net payments under the terms of the interest rate swap agreements are payable on a parity with the Senior Parity Obligations. Termination payments under the 2002A and 2002B interest rate swap agreements would be payable on a parity with the Senior Parity Obligations. Termination payments under all other interest rate swap agreements would be on parity with the Subordinate Parity Obligations.

The following swap transactions were outstanding as of February 1, 2017:

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	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	<u>29,057,500</u>	Citigroup Financial Products, Inc.	3.360	70% of 3-month LIBOR	7/1/2030
Total	\$493,630,000				

Source: Metropolitan.

These interest rate swap agreements entail risk to Metropolitan. The counterparty may fail or be unable to perform, interest rates may vary from assumptions, Metropolitan may be required to post collateral in favor of its counterparties and Metropolitan may be required to make significant payments in the event of an early termination of an interest rate swap. Metropolitan believes that if such an event were to occur, it would not have a material adverse impact on its financial position. Metropolitan seeks to manage counterparty risk by diversifying its swap counterparties, limiting exposure to any one counterparty, requiring collateralization or other credit enhancement to secure swap payment obligations, and by requiring minimum credit rating levels. Initially swap counterparties must be rated at least “Aa3” or “AA-”, or equivalent by any two of the nationally recognized credit rating agencies; or use a “AAA” subsidiary as rated by at least one nationally recognized credit rating agency. Should the credit rating of an existing swap counterparty drop below the required levels, Metropolitan may enter into additional swaps if those swaps are “offsetting” and risk-reducing swaps. Each counterparty is initially required to have minimum capitalization of at least \$150 million. See Note 5(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, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (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 December 31, 2016, Metropolitan would have been required to pay to its counterparties termination payments if some of its swaps were terminated on that date. Metropolitan’s net exposure to its counterparties for all such termination payments on that date was approximately \$75.3 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 December 31, 2016, 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.

Term Mode Bonds

As of February 1, 2017, Metropolitan had outstanding \$73.6 million of Senior Revenue Bonds bearing interest in a term mode, comprised of \$30.3 million of 2014 Series C Bonds in three series, and \$43.3 million of 2014 Series G in four series (collectively, 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 Term Mode Bonds outstanding as of February 1, 2017, are summarized in the following table:

Term Mode Bonds		
Series	Original Principal Amount Issued	Next Scheduled Mandatory Tender Date
2014 C-1	\$13,505,000	October 1, 2019
2014 C-2	14,020,000	October 1, 2020
2014 C-3	2,810,000	October 1, 2021
2014 G-2	14,300,000	October 1, 2017
2011 G-3	11,165,000	October 1, 2018
2012 G-4	11,605,000	October 1, 2019
2012 G-5	6,205,000	October 1, 2020
Total	\$73,610,000	

Source: Metropolitan.

Metropolitan will pay the principal of, and interest on, the Term Mode Bonds on parity with its other Senior Revenue Bonds. Metropolitan anticipates that it will pay the purchase price of tendered Term Mode Bonds from the proceeds of remarketing such Term Mode Bonds or from other available funds. Metropolitan’s obligation to pay the purchase price of any tendered Term Mode Bonds is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. Purchase price payments of Term Mode Bonds are subordinate to both the Senior Revenue Bonds and Senior Parity Obligations and to

the Subordinate Revenue Bonds and Subordinate Parity Obligations. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of Term Mode Bonds in connection with any scheduled mandatory tender. If the purchase price of the Term Mode Bonds 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. Failure to pay the purchase price of a series of Term Mode Bonds on a scheduled mandatory tender date is a default under the related paying agent agreement, upon the occurrence and continuance of which a majority in aggregate principal amount of the owners of such series of Term Mode Bonds may elect a bondholders' committee to exercise rights and powers of such owners under such paying agent agreement. Failure to pay the purchase price of a series of Term Mode Bonds on a scheduled mandatory tender date is not a default under the Senior Debt Resolutions. If the purchase price of the Term Mode Bonds 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 an obligation payable on parity with the Senior Revenue Bonds and Senior Parity Obligations.

Build America Bonds

Metropolitan previously issued and designated three series of Senior Revenue 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"). Metropolitan currently expects to receive cash subsidies from the United States Treasury (the "Interest Subsidy Payments") equal to 35 percent of the interest payable on all such outstanding Build America Bonds less any federal budget sequestration offsets as described in the following paragraph. The Interest Subsidy Payments in connection with the Build America Bonds do not constitute Operating Revenues under the Senior Debt Resolutions or the Subordinate Debt Resolutions. 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 was to receive on or about July 1, 2013 was reduced by 8.7 percent, or \$578,000, to \$6.06 million. Interest Subsidy Payments processed in the federal fiscal year ended September 30, 2014 were reduced by the federal fiscal year 2014 sequestration rate of 7.2 percent and Interest Subsidy Payments processed in the federal fiscal year ended September 30, 2015 were reduced by the federal fiscal year 2015 sequestration rate of 7.3 percent. Interest Subsidy Payments processed in the federal fiscal year ended September 30, 2016 were reduced by the federal fiscal year 2016 sequestration rate of 6.8 percent, and Interest Subsidy Payments processed on or after October 1, 2016 and on or before September 30, 2017 are anticipated to be reduced by the federal fiscal year 2017 sequestration rate of 6.9 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.

Senior Parity Obligations

Short-Term Revolving Credit Facilities. In April 2016, Metropolitan entered into a noteholder's agreement with RBC Municipal Products, LLC ("RBC") for the purchase by RBC and sale by Metropolitan of Metropolitan's Index Notes, Series 2016 ("RBC Facility"). Also in April 2016, Metropolitan entered into

a note purchase and continuing covenant agreement with U.S. Bank National Association (“US Bank”), for the purchase by US Bank and sale by Metropolitan of Metropolitan’s Flexible Rate Revolving Notes, Series 2016 (“US Bank Facility,” and together with the RBC Facility, the “Short-Term Revolving Credit Facilities”). Metropolitan is permitted to sell up to \$200 million of notes (including, subject to certain terms and conditions, notes to refund maturing notes) under each of the Short-Term Revolving Credit Facilities during the term of the respective bank’s commitment to purchase notes thereunder, which currently extends to April 5, 2019, for an aggregate amount of available borrowings of \$400 million. Metropolitan may borrow, pay down and re-borrow amounts under each of the Short-Term Revolving Credit Facilities. Currently, Metropolitan has sold approximately \$250 million of notes under the Short-Term Revolving Credit Facilities (\$125 million under the RBC Facility and approximately \$125 million under the US Bank Facility). Of that amount, Metropolitan has deposited \$250 million in its unrestricted financial reserves. See “METROPOLITAN REVENUES—Financial Reserve Policy” in this Appendix A. An additional draw of approximately \$50 million is expected by the end of June 2017. Subject to the satisfaction of certain terms and conditions, unpaid principal remaining outstanding at the April 5, 2019 commitment end date may be amortizable over a period of approximately one to three years, depending on the applicable facility.

Each of the Short-Term Revolving Credit Facilities bears interest at a variable rate of interest. The US Bank Facility bears interest at a spread to one-month London interbank offering rate (“LIBOR”) for taxable borrowings or to 70 percent of one-month LIBOR for tax-exempt borrowings, while the RBC Facility bears interest at a spread to one-month LIBOR for taxable borrowings or to the SIFMA Municipal Swap Index for tax-exempt borrowings. Under the Short-Term Revolving Credit Facilities, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, each bank could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the Short-Term Credit Facilities as Senior Parity Obligations.

In the Short-Term Revolving Credit Facilities agreements, Metropolitan designated the principal and interest payable as Excluded Principal Payments under the Senior Debt Resolutions and thus, for purposes of calculating Maximum Annual Debt Service, included the amount of principal and interest due and payable under the Short-Term Revolving Credit Facilities on a schedule of Assumed Debt Service. This schedule of Assumed Debt Service assumes that Metropolitan will pay the principal under the Short-Term Revolving Credit Facilities over a period of 30 years at a fixed interest rate of approximately 3.3 percent.

Wells Fargo Revolving Credit Agreement. On July 1, 2015, Metropolitan executed a revolving credit agreement with Wells Fargo Bank, N.A. (the “Wells Fargo Revolving Credit Agreement”). Under the terms and conditions of the Wells Fargo Revolving Credit Agreement, Metropolitan will be able to borrow up to \$180 million 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 million 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 million 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 Wells Fargo Revolving Credit Agreement, a failure by Metropolitan to perform or observe certain covenants could result in a termination of Wells Fargo Bank and ICBC’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 Wells Fargo Revolving Credit Agreement as Senior Parity Obligations. Metropolitan has no obligation to make borrowings under, maintain, or renew the Wells Fargo Revolving Credit Agreement. See “—Limitations on Additional Revenue Bonds” above.

In the Wells Fargo Revolving Credit Agreement, Metropolitan designated the principal and interest payable as Excluded Principal Payments under the Senior Debt Resolutions and thus, for purposes of calculating Maximum Annual Debt Service, included the amount of principal and interest due and payable

under the 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 Senior Debt Resolutions, while the Wells Fargo Revolving Credit Agreement is in force and effect, when Metropolitan calculates its covenant relating to the creation or incurrence of additional indebtedness, it will add an amount to its Net Operating Revenues relating to an assumed annual debt service payment that Metropolitan would receive if it were to use the proceeds of the Wells Fargo Revolving Credit Agreement to purchase Self-Liquidity Bonds.

Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations

Subordinate Revenue Bonds

In December 2016, Metropolitan entered into a Continuing Covenant Agreement with Bank of America, N.A. (“BANA”, and the “2016 BANA Agreement”), for the purchase by BANA and sale by Metropolitan of Metropolitan’s \$175 million Subordinate Water Revenue Bonds, 2016 Authorization Series A (the “Subordinate 2016 Series A Bonds”), which is the first series of bonds issued under the Subordinate Debt Resolutions. Proceeds were used to reimburse Metropolitan for the purchase of the Delta Islands in the San Francisco Bay\Sacramento-San Joaquin River Delta that was funded from Metropolitan’s reserves in July 2016. See “CAPITAL INVESTMENT PLAN–Other Capital Expenses” and “METROPOLITAN REVENUES–Financial Reserve Policy” in this Appendix A.

The Subordinate 2016 Series A Bonds bears interest at a variable rate of interest, at a spread to one-month LIBOR. Under the 2016 BANA Agreement, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, BANA could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a Subordinate Parity Obligation. The Subordinate 2016 Series A Bonds are Index Tender Bonds and are subject to mandatory tender for purchase on the scheduled mandatory tender date of December 21, 2018, or, if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction. On or before the scheduled mandatory tender date, Metropolitan may request an extension of the 2016 BANA Agreement for another tender period or may request BANA to purchase the Subordinate 2016 Series A Bonds in another interest rate mode, or Metropolitan may seek to remarket the 2016 Series A Bonds to another bank or in the public debt markets. In the event the 2016 BANA Agreement is not extended, Metropolitan is obligated under the 2016 BANA Agreement to cause unremarketed Subordinate 2016 Series A Bonds to be redeemed five business days after the scheduled mandatory tender date in the event the purchase price of the Subordinate 2016 Series A Bonds is not paid from the proceeds of a remarketing or other funds on the scheduled mandatory tender date. A failure to pay the purchase price of the Subordinate 2016 Series A Bonds upon a mandatory tender would constitute a default under the Subordinate Debt Resolutions if not remedied within five business days.

The water revenue bonds issued under the Subordinate Debt Resolutions outstanding as of February 1, 2017, are set forth below:

Name of Issue	Principal Outstanding
Subordinate Water Revenue Bonds, 2016 Authorization Series A ⁽¹⁾	\$175,000,000

Source: Metropolitan.

(1) Outstanding variable rate obligation.

Subordinate Parity Obligations

In 2003, 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 Senior Revenue Bonds and Senior Obligations and on parity with the Subordinate Revenue Bonds. As of February 1, 2017, the principal balance outstanding was \$8.6 million.

Other Junior Obligations

Metropolitan currently is authorized to issue up to \$400,000,000 of Commercial Paper Notes payable from Net Operating Revenues on a basis subordinate to both the Senior Revenue Bonds and Senior Parity Obligations and to the Subordinate Revenue Bonds and Subordinate Parity Obligations. Although no Commercial Paper Notes are currently outstanding, the authorization remains in full force and effect and Metropolitan may issue Commercial Paper Notes from time to time.

General Obligation Bonds

As of February 1, 2017, \$92,865,000 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	\$30,745,000
Waterworks General Obligation Refunding Bonds, 2010 Series A	39,485,000	23,065,000
Waterworks General Obligation Refunding Bonds, 2014 Series A	<u>49,645,000</u>	<u>39,055,000</u>
Total	<u>\$134,645,000</u>	<u>\$92,865,000</u>

Source: Metropolitan.

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

State Water Contract Obligations

General. As described herein, in 1960, Metropolitan entered into its State Water Contract with DWR to receive water from the State Water Project. All expenditures for capital and operations, maintenance, power and replacement costs associated with the State Water Project facilities used for water delivery are paid for by the 29 Contractors that have executed State Water Contracts with DWR, including Metropolitan. Contractors are obligated to pay allocable portions of the cost of construction of the system and ongoing operating and maintenance costs through at least 2035, regardless of quantities of water available from the project. Other payments are based on deliveries requested and actual deliveries received, costs of power required for actual deliveries of water, and offsets for credits received. In exchange, Contractors have the right to participate in the system, with an entitlement to water service from the State Water Project and the right to use the portion of the State Water Project conveyance system necessary to deliver water to them at no additional cost as long as capacity exists. Metropolitan’s State Water Contract accounts for nearly one-half of the total entitlement for State Water Project water contracted for by all Contractors.

DWR and other State Water Project Contractors, including Metropolitan, have reached an Agreement in Principle to extend their State Water Contracts to 2085 and to make certain changes related to the financial management of the State Water Project in the future. See “METROPOLITAN’S WATER SUPPLY—State Water Project” in this Appendix A.

Metropolitan's payment obligation for the State Water Project for the fiscal year ended June 30, 2016 was \$511 million, which amount reflects prior year's credits of \$61.6 million. For the fiscal year ended June 30, 2016, Metropolitan's payment obligations under the State Water Contract were approximately 27 percent of Metropolitan's total annual expenses. A portion of Metropolitan's annual property tax levy is for payment of State Water Contract obligations, as described above under "METROPOLITAN REVENUES—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" below 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 XIII A of the State Constitution as a tax to pay pre-1978 voter approved indebtedness.

Metropolitan capitalizes its share of the State Water Project capital costs as participation rights in State Water Project facilities as such costs are costs paid in exchange for participation in the system, regardless of whether there is water available to be delivered. Unamortized participation rights essentially represent a prepayment for future costs as Metropolitan will likely continue to participate in the system at least through 2035. Metropolitan's share of system operating and maintenance costs are annually expensed.

DWR and various subsets of the State Water Contractors have entered into amendments to the State Water Contract related to the financing of certain State Water Project facilities. The amendments establish procedures to provide for the payment of construction costs financed by DWR bonds by establishing separate subcategories of charges to produce the revenues required to pay all of the annual financing costs (including coverage on the allocable bonds) relating to the financed project. If any affected Contractor defaults on payment under certain of such amendments, the shortfall may be collected from the non-defaulting affected Contractors, subject to certain limitations.

These amendments represent additional long-term obligations of Metropolitan, as described below.

Devil Canyon-Castaic Contract. On June 23, 1972, Metropolitan and five other southern California public agencies entered into a contract (the "Devil Canyon-Castaic Contract") with DWR for the financing and construction of the Devil Canyon and Castaic power recovery facilities, located on the aqueduct system of the State Water Project. Under this contract, DWR agreed to build the Devil Canyon and Castaic facilities, using the proceeds of revenue bonds issued by DWR under the State Central Valley Project Act. DWR also agreed to use and apply the power made available by the construction and operation of such facilities to deliver water to Metropolitan and the other contracting agencies. Metropolitan, in turn, agreed to pay to DWR 88 percent of the debt service on the revenue bonds issued by DWR. For calendar year 2016, this represented a payment of \$7.8 million. In addition, Metropolitan agreed to pay 78.5 percent of the operation and maintenance expenses of the Devil Canyon facilities and 96 percent of the operation and maintenance expenses of the Castaic facilities. Metropolitan's obligations under the Devil Canyon-Castaic Contract continue until the bonds are fully retired in 2022 even if DWR is unable to operate the facilities or deliver power from these facilities.

Off-Aqueduct Power Facilities. In addition to system "on-aqueduct" power facilities costs, DWR has, either on its own or by joint venture, financed certain off-aqueduct power facilities. The power generated is utilized by the system for water transportation and other State Water Project purposes. Power

generated in excess of system needs is marketed to various utilities and the California Independent System Operator. 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.

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 2017 and, for fiscal year 2016-17, preliminary financial results through December 30, 2016. For all other years the projections are based on Metropolitan's adopted biennial budget for fiscal years 2016-17 and 2017-18 and the ten-year financial forecast included in

the adopted budget. See “METROPOLITAN’S WATER SUPPLY–State Water Project – Bay-Delta Proceedings Affecting State Water Project – Bay-Delta Planning Activities” in this Appendix A.

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

Year Ending June 30	Capital Costs	Minimum OMP&R⁽²⁾	Power Costs⁽³⁾	Refunds & Credits	Total⁽⁴⁾
2017	\$173.4	\$225.0	\$150.0	\$(46.4)	\$502.0
2018	184.2	294.7	158.4	(37.9)	599.4
2019	195.3	315.9	170.4	(36.1)	645.5
2020	212.1	340.5	191.1	(35.0)	708.7
2021	236.3	264.8	212.1	(34.7)	778.6

Source: Metropolitan.

- (1) Projections are based upon DWR’s Annual Billing to Metropolitan for 2017 and attachments (dated July 1, 2015) and, for fiscal year 2016-17, preliminary financial results through December 31, 2016. For other years, the projections are based on Metropolitan’s adopted biennial budget for fiscal years 2016-17 and 2017-18, 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 year ended June 30, 2016 and June 30, 2015, in Appendix B, due to the inclusion of allowances for inflation and anticipated construction of additional State Water Project facilities. See “METROPOLITAN EXPENSES–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: 0.75 million acre-feet for fiscal year 2016-17, 0.77 million acre-feet for fiscal year 2017-18, 0.82 million acre-feet for fiscal year 2018-19, 0.88 million acre-feet for fiscal year 2019-20, and 0.93 million acre-feet for fiscal year 2020-21. 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” and “–Endangered Species Act and Other Environmental Considerations” in this Appendix A.
- (4) Annual totals include California WaterFix related costs for the fiscal years ended June 30, 2017 through June 30, 2021 of \$-0- in fiscal year 2016-17 and fiscal year 2017-18, \$20 million in fiscal year 2018-19, \$38 million in fiscal year 2019-20, and \$63 million in fiscal year 2020-21. Projected California WaterFix costs are reflected in the ten-year financial forecast provided in the biennial budget for fiscal years 2016-17 and 2017-18 that was approved by Metropolitan’s Board on April 12, 2016.

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 2015-16 Metropolitan paid approximately \$15.7 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.

Power Sources and Costs

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 2014-15 and 2015-16 were approximately \$39.2 million, and \$35.5 million, respectively. Expenses for electric power

and transmission service for the State Water Project for fiscal years 2014-15 and 2015-16 were approximately \$140.8 million and \$125.4 million, respectively. Given the continuing uncertainty surrounding the electricity markets in California and in the electric industry in general, Metropolitan is unable to give any assurance with respect to the magnitude of future power costs.

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

The Hoover Power Allocation Act of 2011 (H.R. 470) requires the Western Area Power Administration (Western) 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. Metropolitan and Western have completed negotiations and have executed the new contract.

As provided for under the Hoover Power Allocation Act of 2011 (H.R. 470), Metropolitan has executed a 50-year agreement with the Western Area Power Administration for the continued purchase of electric energy generated at the Hoover Power Plant through September 2067. Under the successor agreement (which will replace Metropolitan's existing Hoover contract expiring in 2017), Metropolitan will retain 95 percent of its existing power rights.

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, 2015 and June 30, 2016 were approximately 1.2 million acre-feet and 1.1 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.

Depending on pumping conditions, Metropolitan can require additional energy 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 also purchases California market-priced power through its agreement with Edison. In fiscal years 2014-15 and 2015-16, Metropolitan purchased approximately 710,000 and 690,000 megawatt-hours, respectively, of additional energy.

The Metropolitan-Edison 1987 Service and Interchange Agreement will expire on September 30, 2017. Metropolitan is negotiating with several parties on successor agreements. In particular, Metropolitan will no longer receive benefit energy from Edison. Metropolitan anticipates market power purchases will replace benefit energy and has reflected the additional costs in the CRA power cost projections for fiscal year 2017-18 and the ten-year financial forecast.

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 Metropolitan (hydropower), Kern River Conservation District (hydropower), Northern California Power Agency (natural gas generation), Alameda Municipal Power (geothermal and landfill gas), Sun Power Corporation (solar) and Dominion Solar Holdings (solar). 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 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. On May 16, 2012, the trial 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. Supplemental briefing was completed in the fall of 2016. No date has been set for oral argument. Regulatory permits and authorizations are also required before the new license can take effect. In December 2016, the National Marine Fisheries Service issued a biological opinion setting forth the terms and conditions under which the relicensing project must operate in order to avoid adverse impacts to threatened and endangered species. This was the last major regulatory hurdle prior to FERC issuing a new license. Metropolitan anticipates that FERC will issue the new license in 2017. However, FERC has issued one-year renewals of the existing license since its initial expiration date on January 31, 2007, and is expected to issue successive one-year renewals until a new license is obtained.

DWR receives transmission service from the California Independent System Operator ("CAISO"), a nonprofit public benefit corporation formed in 1996 pursuant to legislation that restructured and deregulated the electric utility industry in California. The transmission service providers participating in the CAISO may seek increased transmission rates, subject to the approval of FERC. DWR has the right to contest any such proposed increase. DWR may be subject to increases in the cost of transmission service as new electric grid facilities are constructed.

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. Employees hired on or after January 1, 2013 and who are “new” PERS members as defined by Public Employees’ Pension Reform Act of 2013 pay a member contribution of 6.75 and 6.00 percent in fiscal years 2016-17 and 2017-18, respectively. 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 2015-16 contribution is based on the June 30, 2013 valuation report, the fiscal year 2016-17 contribution is based on the June 30, 2014 valuation report, and the fiscal year 2017-18 contribution is based on the June 30, 2015 valuation report. The PERS’ projected investment return (the discount rate) for each of these fiscal years is 7.5 percent.

For fiscal year 2015-16, Metropolitan contributed 19.74 percent of annual covered payroll. The fiscal year 2015-16 annual pension cost was \$50.8 million, of which \$12.4 million was for Metropolitan’s pick-up of the employees’ seven percent share. For fiscal years 2016-17 and 2017-18, Metropolitan is required to contribute 20.75 and 22.89 percent of annual covered payroll, respectively, in addition to member contributions paid by Metropolitan.

Metropolitan’s required contributions to PERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. Many assumptions are used to estimate the ultimate liability of pensions and the contributions that will be required to meet those obligations. The PERS Board of Administration has adjusted and may in the future further adjust certain assumptions used in the PERS actuarial valuations, which adjustments may increase Metropolitan’s required contributions to PERS in future years. Accordingly, Metropolitan cannot provide any assurances that its required contributions to PERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions.

On April 17, 2013, the PERS Board of Administration approved changes to the amortization and rate 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 beginning with the June 30, 2013 valuations. In addition, PERS no longer uses an actuarial valuation of assets and instead uses the market value of assets to determine contribution rates per PERS direct smoothing policy. These changes will result in higher employer contribution rates in the near term but lower rates in the long term. The new policies are effective for determining contribution requirements beginning fiscal year 2015-16. On December 21, 2016 the PERS Board of Administration approved lowering the discount rate to 7.00 percent over a three year period. As a result, the discount rate for fiscal year 2018-19 will be 7.375 percent, for fiscal year 2019-20 it will be 7.25 percent, and for fiscal year 2020-21 it will be 7.00 percent. PERS has estimated that with a reduction in the rate of return to 7.00 percent, most employers could expect a 1 to 3 percent increase in the normal cost for miscellaneous plans. As a result, required contributions of employers, including Metropolitan, toward unfunded accrued liabilities, and as a percentage of payroll for normal costs, are expected to increase. The following table shows the funding progress of Metropolitan’s pension plan.

The following table shows the funding progress of Metropolitan’s pension plan.

Metropolitan Pension Plan Assets
(dollars in billions)

Valuation Date	Accrued Liability	Actuarial Value of Assets	Market Value of Assets	Funded (Unfunded)		Funded Ratios	
				Actuarial Value	Market Value	Actuarial Value	Market Value
6/30/15	\$2.060	N/A	\$1.556	N/A	\$(0.504)	N/A	75.5%
6/30/14	\$1.983	N/A	\$1.560	N/A	\$(0.423)	N/A	78.7%
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%

Source: California Public Employees' Retirement System.

Effective July 1, 2014, Metropolitan implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68), affecting the reporting of pension liabilities for accounting purposes. Under GASB 68, Metropolitan is required to report the Net Pension Liability (*i.e.*, the difference between the Total Pension Liability and the Pension Plan's Net Position or market value of assets) in its financial statements.

For Metropolitan's fiscal year ended June 30, 2016 financial statements, the Net Pension Liability reported for the Miscellaneous Plan was \$479.6 million (an increase of \$72.8 million over the prior year), representing a Total Pension Liability as of such date of \$2,038.6 million (an increase of \$69.2 million over the prior year) less the Plan Fiduciary Net Position as of such date of \$1,559.0 million (a decrease of \$3.5 million over the prior year). For fiscal year 2016, the Miscellaneous Plan Net Pension Liability as a percentage of covered-employee payroll was 231.10 percent and the Plan Net Position as a percentage of the Total Pension Liability was 76.48 percent. The Net Pension Liability for Metropolitan's Miscellaneous Plan for the year ended June 30, 2016 was measured as of June 30, 2015, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

For the fiscal year ended June 30, 2015 financial statements, Metropolitan reported a Net Pension Liability of \$406.8 million (a decrease of \$118.1 million over the prior year), representing a Total Pension Liability as of such date of \$1,969.3 million (an increase of \$86.3 million over the prior year) less the Plan Fiduciary Net Position as of such date of \$1,562.5 million (an increase of \$204.4 million over the prior year). For fiscal year 2015, the Miscellaneous Plan Net Pension Liability as a percentage of covered-employee payroll was 200.53 percent and the Plan Net Position as a percentage of the Total Pension Liability was 79.34 percent. The Net Pension Liability for Metropolitan's Miscellaneous Plan for the year ended June 30, 2015 was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

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, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (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 \$23.1 million in fiscal year 2015-16. 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 actuarial valuation dated June 30, 2015, was released in June of 2016. This valuation indicates that the Annual Required Contribution (ARC) in fiscal years 2016-17 and 2017-18 will be \$29.3 million and \$30.1 million, respectively. The ARC was based on 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 7.0 percent for non-Medicare plans for 2017, grading down to 5.0 percent for 2021 and thereafter. As of June 30, 2015, the date of the OPEB actuarial report, the unfunded actuarial accrued liability was estimated to be \$258.8 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, actuarial gains and losses, and plan changes 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 2016-17 and 2017-18.

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, was issued in June 2015, relating to accounting and financial reporting by state and local governments for OPEB. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources, and expenses. For defined benefit OPEB, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB also are addressed. This statement is effective for Metropolitan for 2018. Major changes would be: (i) the inclusion of net OPEB liabilities on Metropolitan’s Statement of Net Position (they are currently included as notes to Metropolitan’s financial statements); and (ii) more variable OPEB expense as it will now be based on the net OPEB liability change between reporting dates, with some sources of change recognized immediately and others spread over years, instead of being based on actual contributions.

HISTORICAL AND PROJECTED REVENUES AND EXPENSES

The “Historical and Projected Revenues and Expenses” table below provides a summary of revenues and expenses of Metropolitan prepared on a modified accrual basis. This is consistent with the adopted biennial budget for fiscal years 2016-17 and 2017-18. 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.

Metropolitan's resource planning projections are developed using a comprehensive analytical process that incorporates demographic growth projections from recognized regional planning entities, historical and projected data acquired through coordination with local agencies, and the use of generally accepted empirical and analytical methodologies. See "METROPOLITAN'S WATER SUPPLY-Integrated Water Resources Plan" in this Appendix A. Metropolitan has conservatively set the water sales projections in the following table. Due to the variability of supplemental wholesale water sales and unpredictability of future hydrologic conditions, sales projections are based on long-term average forecasts consistent with Metropolitan's latest Board adopted Integrated Resources Plan, the 2015 IRP Update.

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.

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 "CONSERVATION AND WATER SHORTAGE MEASURES" in this Appendix A. Local supplies include water produced by local agencies from various sources including but not limited to groundwater, surface water, locally-owned imported supplies, recycled water, and seawater desalination (see "REGIONAL WATER RESOURCES" in this Appendix A). For example, water sales projections for fiscal year 2016-17 assumed that local projects such as groundwater recovery and desalination projects (see "REGIONAL WATER RESOURCES-Local Water Supplies" in this Appendix A) would become operational and produce local supplies in 2017. 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. As shown in the *Historical Water Sales* chart below, sales can vary significantly from average and demonstrates the degree to which Metropolitan's commitments to meet supplemental demands can impact sales. 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.

Projections for fiscal year 2016-17 in the following table reflect actual financial results through December 31, 2016 and revised projections for the balance of the fiscal year. The financial projections for fiscal year 2017-18 reflects the adopted biennial budget that was approved by the Board on April 12, 2016, with revised preliminary water sales projections as of February 2017, but with no adjustments for lower expenses that can accompany lower water sales. Financial projections for fiscal years 2018-19 through 2020-21 are reflected in the ten-year financial forecast provided in the adopted biennial budget. This includes the projected issuance of \$320 million of bonds in fiscal years 2017-18 through 2019-21 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 1.62 million acre-feet in fiscal year 2015-16. Water sales are projected to be 1.60 million acre-feet in fiscal year 2016-17 and 1.50 million acre-feet for fiscal year 2017-18, and 1.75 million acre-feet for fiscal years 2018-19 through 2020-21. Rates and charges increased by 1.5 percent on January 1, 2015 and January 1, 2016, and by 4.0 percent on January 1, 2017. On April 12, 2016 the Board adopted average increases in rate and charges of 4.0 percent, which will become effective on January 1, 2018. Rates and charges are projected to increase an average of 4.5 percent annually thereafter. Actual rates and charges to be effective in 2019 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.

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HISTORICAL AND PROJECTED REVENUES AND EXPENSES^(a)
(Dollars in Millions)

	Actual				Projected				
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Water Sales ^(b)	\$1,283	\$1,485	\$1,383	\$1,166	\$1,198	\$1,233	\$1,473	\$1,533	\$1,597
Additional Revenue Sources ^(c)	173	182	199	200	191	173	179	184	192
Total Operating Revenues	1,456	1,667	1,582	1,366	1,389	1,405	1,652	1,717	1,789
O&M, CRA Power and Water Transfer Costs ^(d)	(456)	(512)	(697)	(799)	(646)	(631)	(661)	(681)	(695)
Total SWC OMP&R and Power Costs ^(e)	(337)	(342)	(308)	(402)	(365)	(453)	(486)	(532)	(577)
Total Operation and Maintenance	(793)	(854)	(1,005)	(1,201)	(1,011)	(1,084)	(1,147)	(1,212)	(1,272)
Net Operating Revenues	\$ 663	\$ 813	\$ 577	\$ 165	\$ 378	\$ 321	\$ 505	\$ 505	\$ 517
Miscellaneous Revenue ^(f)	23	19	21	24	21	24	24	24	25
Transfer from Reserve Funds ^(g)	--	--	142	222	46	--	--	--	--
Sales of Hydroelectric Power ^(h)	25	15	8	7	13	22	22	23	22
Interest on Investments ⁽ⁱ⁾	(2)	19	13	17	3	12	19	19	20
Adjusted Net Operating Revenues ^(j)	709	866	761	435	461	378	569	571	584
Senior Bond Service ^(k)	(298)	(343)	(280)	(309)	(307)	(330)	(328)	(322)	(314)
Subordinate Obligations ^(l)	(1)	(1)	(1)	(1)	(4)	(4)	(6)	(6)	(6)
Funds Available from Operations	\$ 410	\$ 522	\$ 480	\$ 125	\$ 150	\$ 44	\$ 236	\$ 243	\$ 265
Senior Bond Debt Service Coverage ^(m)	2.38	2.52	2.72	1.41	1.50	1.15 ^(q)	1.74	1.77	1.86
Subordinate Lien Debt Service Coverage	--	--	--	--	39.45	11.52 ^(q)	43.57	44.83	48.72
Debt Service Coverage on all Senior and Subordinate Bonds ⁽ⁿ⁾	2.37	2.51	2.71	1.40	1.48	1.13 ^(q)	1.71	1.74	1.83
Funds Available from Operations	\$ 410	\$ 522	\$ 480	\$ 125	\$ 150	\$ 44	\$ 236	\$ 243	\$ 265
Other Revenues (Expenses)	(5)	(6)	(7)	(6)	(6)	(6)	(7)	(7)	(7)
Pay-As-You Go Construction ^(p)	(55)	(117)	(210)	(273)	(132)	(120)	(120)	(120)	(120)
Pay-As-You Go Funded from Replacement & Refurbishment Fund Reserves ^(p)	--	--	--	160	--	--	--	--	--
Total SWC Capital Costs Paid from Current Year Operations	(88)	(68)	(46)	(24)	(54)	(65)	(71)	(86)	(103)
Remaining Funds Available from Operations	262	331	217	(18)	(42)	(147)	39	30	35
Fixed Charge Coverage ^(o)	1.83	2.10	2.33	1.30	1.26	0.95 ^(q)	1.41	1.38	1.38
Property Taxes	95	95	104	108	106	101	103	105	107
General Obligation Bonds Debt Service	(40)	(40)	(22)	(22)	(22)	(23)	(19)	(14)	(14)
SWC Capital Costs Paid from Taxes	(55)	(55)	(82)	(86)	(83)	(75)	(82)	(88)	(91)
Net Funds Available from Current Year ^(p)	\$ 262	\$ 331	\$ 217	\$ (18)	\$ (42)	\$ (147)	\$ 39	\$ 30	\$ 35

Source: Metropolitan.

(Footnotes on next page)

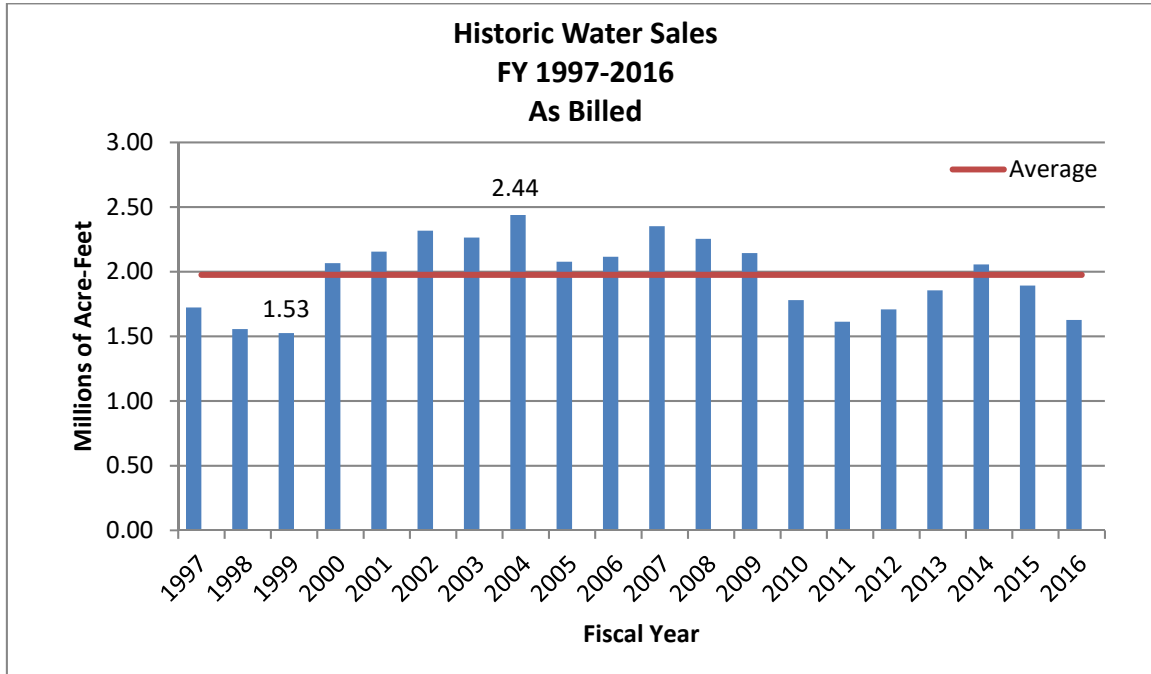
(Footnotes to table on prior page)

- (a) Unaudited. Prepared on a modified accrual basis. Projected revenues and expenses in fiscal year 2016-17 are based on preliminary financial results through December 31, 2016, and revised projections for the balance of fiscal year 2016-17. Projections for fiscal year 2017-18 are based on assumptions and estimates used in the adopted biennial budget for fiscal years 2016-17 and 2017-18 and revised for water sales of 1.5 million acre-feet. Projections for fiscal years 2018-19 through 2020-21 are based on assumptions and estimates used in the adopted fiscal years 2016-17 and 2017-18 biennial budget and reflect the projected issuance of additional bonds.
- (b) During the fiscal years ended June 30, 2013 through June 30, 2016, annual water sales (in acre-feet) were 1.86 million, 2.04 million, 1.905 million and 1.62 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 2016-17, 1.50 million acre-feet for fiscal years 2017-18, and 1.75 million acre-feet for fiscal years 2018-19, 2019-20 and 2020-21. Projections reflect Board adopted rate and charge increases of 4.0 percent, effective on January 1, 2017 and January 1, 2018. Rates and charges are projected to increase an average of 4.5 percent per fiscal year thereafter, subject to adoption by Metropolitan’s Board. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES.”
- (c) Includes receipts from water standby, readiness-to-serve, and capacity charges. The term Operating Revenues excludes *ad valorem* taxes. See “METROPOLITAN REVENUES–Other Charges” in this Appendix A.
- (d) Water Transfer Costs 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 EXPENSES–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.
- (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, \$222 million in fiscal year 2015-16, and projected transfers of \$46 million in fiscal year 2016-17 to fund a like amount of costs for conservation and supply programs. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES.”
- (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 Senior Revenue Bonds and Senior Parity Obligations and Subordinate Revenue Bonds and Subordinate Parity Obligations.
- (k) Includes debt service on outstanding Senior Revenue Bonds, and additional Senior Revenue Bonds (projected). Assumes issuance of \$80 million annually in additional Senior Revenue Bonds as provided in budget assumptions for the adopted biennial budget for fiscal years 2016-17 and 2017-18 and as projected for fiscal years 2018-19, 2019-20, and 2020-21. 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. Fiscal year 2015-16 debt service increased \$7.0 million for debt service paid on June 30, 2016, rather than July 1, 2017 and fiscal year 2016-17 debt service was therefore reduced by \$7.0 million. See “CAPITAL INVESTMENT PLAN–Capital Investment Plan Financing” in this Appendix A.
- (l) Consisting of subordinate lien California Safe Drinking Water Revolving Fund Loan and Subordinate 2016 Series A Bonds.
- (m) Adjusted Net Operating Revenues divided by the sum of debt service on outstanding Senior Revenue Bonds and additional Senior Revenue Bonds (projected).
- (n) Adjusted Net Operating Revenues, divided by the sum of debt service on outstanding Senior Revenue Bonds, Senior Parity Obligations, Subordinate Revenue Bonds and Subordinate Parity Obligations, including the subordinate lien California Safe Drinking Water Revolving Fund Loan and projected Revenue Bonds. See “METROPOLITAN EXPENSES–Outstanding Subordinate Revenue Bonds and Subordinate Parity 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 Revenue Bonds, the subordinate lien California Safe Drinking Water Revolving Fund Loan, Subordinate 2016 Series A Bonds and additional Revenue 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 pay-as-you-go 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 pay-as-you-go Construction, \$232 million to the Water Management Fund, for water purchases to replenish storage and funding drought response programs. For Fiscal Year 2014-15, includes amounts transferred prior to June 30, 2015: \$160 million to the Water Management Fund, for water conservation programs. For fiscal year 2015-16, Metropolitan used \$264 million for acquiring properties in Riverside and Imperial Counties, funded by \$160 million from the Replacement and Refurbishment Fund Reserves and the balance from unrestricted reserves. This land purchase is reflected as a pay-as-you-go expenditure for fiscal year 2015-16.
- (q) The financial projection for fiscal year 2017-18 reflects the revised preliminary water sales projection of 1.50 million acre-feet and a corresponding reduction in projected water sales revenues. It does not take into account any potential reduction in expenses that may accompany such reduced water sales. As discussed, 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 also “METROPOLITAN REVENUES–Financial Reserve Policy.”

**MANAGEMENT’S DISCUSSION OF HISTORICAL AND
PROJECTED REVENUES AND EXPENSES**

Water Sales Projections

Water sales forecast in the table above for fiscal year 2016-17 is 1.60 million acre-feet, 100 thousand acre-feet under budget. The updated water sales forecast is 1.50 million acre-feet for fiscal year 2017-18, and 1.75 million acre-feet for fiscal years 2018-19 and 2019-21, consistent with the biennial budget and ten-year financial forecast. For purposes of comparison, Metropolitan’s highest water sales during the past 20 fiscal years was approximately 2.44 million acre-feet in fiscal year 2003-04 and the lowest was 1.53 million acre-feet in fiscal year 1998-1999. The chart below shows the last 20 fiscal years of water sales.



Water Sales Revenues

Metropolitan relies on revenues from water sales for about 85 to 90 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 the required 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 annual water rate increases of 5.0 percent, which became effective January 1, 2013 and January 1, 2014. On April 8, 2014, Metropolitan’s Board adopted 1.5 percent average water rate increases effective January 1, 2015, and January 1, 2016, and on April 12, 2016, Metropolitan’s Board adopted an average 4.0 percent water rate increase, effective January 1, 2017, and an additional average 4.0 percent water rate increase effective January 1, 2018.

Projected Fiscal Year 2016-17 Results

Projections for fiscal year 2016-17, in the table above, are based on preliminary financial results through December 31, 2016, and revised projections for the balance of fiscal year 2016-17. The financial

projection for fiscal year 2017-18 reflects the adopted biennial budget for this fiscal year as approved by the Board on April 12, 2016, with revised preliminary water sales projections. Financial projections for fiscal years 2018-19 through 2020-21 are reflected in the ten-year financial forecast provided in the adopted biennial budget. The fiscal year 2016-17 and 2017-18 biennial budget and rates set the stage for predictable and reasonable rate increases over the ten-year planning period, with Board adopted rate increases of 4.0 percent annually in both fiscal years 2016-17 and 2017-18, and projected average increases of 4.5 percent per year thereafter. Actual rates and charges to be effective in fiscal year 2018-19 and thereafter are subject to adoption by Metropolitan's Board as part of the biennial budget process, at which point the ten-year forecast will also be updated as well. Increases in rates and charges reflect the impact of reduced water sales projections, increasing operations and maintenance costs, and increasing State Water Project costs, when compared to prior fiscal years.

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 April 30, 2016, include \$250 million drawn from Short-Term Revolving Credit Facilities with RBC Municipal Products, LLC, and U.S. Bank N.A, and deposited in Metropolitan's financial reserves. See "METROPOLITAN REVENUES—Financial Reserve Policy" and "METROPOLITAN EXPENSES—Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – Short-Term Revolving Credit Facilities" in this Appendix A.

In fiscal years 2014-15 and 2015-16, Adjusted Net Operating Revenues reflect the use of \$142 million and \$222 million respectively, from reserves to fund a like amount of costs for conservation and supply programs. In fiscal year 2016-17, \$46 million of Adjusted Net Operating Revenues are projected to come from reserves to fund a like amount of costs for conservation and supply programs.

Financial projections for fiscal year 2016-17 reflect lower water sales revenues that are estimated to be \$107.0 million, or 8 percent, below budget, based on the revised water sales projection of 1.60 million acre-feet, compared to the budgeted 1.70 million acre-feet, a reduction of 6 percent.

Operation and maintenance expenses in fiscal year 2016-17 are projected to be \$1.01 billion, which represents approximately 63 percent of total costs. These expenses include the costs of labor, electrical power, materials and supplies of both Metropolitan and its contractual share of the State Water Project. Metropolitan's operation and maintenance expenditures are project to be on budget in fiscal year 2016-17. Metropolitan's State Water Project costs are projected to be \$80.3 million lower than budgeted. Overall, projected expenditures for the twelve months ending June 30, 2017 are \$1.6 billion. This is \$89 million, or 5 percent, less than budgeted expenditures.

The combination of lower than budgeted water sales revenue and expenditures has resulted in projected fiscal year 2016-17 revenue bond debt service coverage to be 1.48x and fixed charge coverage to be 1.26x, compared to budgeted debt service coverage of 1.55x and budgeted fixed charge coverage of 1.27x. Fiscal year 2016-17 capital expenditures, currently estimated at \$212 million, will be primarily funded by pay-as-you-go funding and the remainder from bond proceeds. Metropolitan's unrestricted reserves are projected to be approximately \$378 million at June 30, 2017. See "METROPOLITAN REVENUES—Financial Reserve Policy" in this Appendix A. This amount does not include funds held in the Exchange Agreement Set-Aside Fund.

See also the “Management’s Discussion and Analysis” contained in APPENDIX B–“THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED).”

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APPENDIX B

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT
AUDITOR'S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED
JUNE 30, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE
SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)**

The financial and statistical information contained in this Appendix B is included herein for informational purposes only. The Basic Financial Statements for the six months ended December 31, 2016 and 2015 (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, 2016 and 2015

(With Independent Auditor's Report Thereon)



Certified
Public
Accountants

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June 30, 2016 and 2015

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Independent Auditor's Report

To 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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise 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, 2016 and 2015, 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 1(q) 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 9(h) to the basic financial statements, San Diego County Water Authority (SDCWA) has filed various lawsuits against Metropolitan challenging Metropolitan's rates and charges effective 2011 to 2018. On November 8, 2015, the Superior Court of California, County of San Francisco (the Court) issued a final judgment and a peremptory writ of mandate in favor of SDCWA with respect to certain of these cases awarding SDCWA \$188.3 million in damages and \$46.6 million of prejudgment interest for a total judgment of \$234.9 million plus \$8.9 million of attorney fees. Metropolitan has filed various appeals challenging the above judgments and writs and these judgments and writs are stayed while the appeals are pending. Metropolitan is unable to assess at this time the likelihood of success of this litigation, the 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. Our opinion is not modified with respect to this matter.

Other Matters

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 3-15 and 85-87, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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.



Newport Beach, California
October 14, 2016

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
June 30, 2016 and 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, 2016 and 2015. 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 Pensions - 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 year ended June 30, 2014 because the necessary actuarial information from the California Public Employees' Retirement System was not provided for fiscal year 2014. 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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 June 30, 2016 and 2015

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

(Dollars in millions)	June 30,		
	2016	2015	2014
	As Adjusted ¹		
Assets and deferred outflows of resources			
Capital assets, net	\$ 10,339.4	\$ 10,098.1	\$ 10,104.6
Other assets and deferred outflows of resources	2,237.9	2,388.0	2,362.7
Total assets and deferred outflows of resources	12,577.3	12,486.1	12,467.3
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	5,011.3	4,950.9	4,767.1
Current liabilities and deferred inflows of resources	882.2	653.5	499.2
Total liabilities and deferred inflows of resources	5,893.5	5,604.4	5,266.3
Net position			
Net investment in capital assets, including State Water Project costs	5,772.4	5,700.8	5,593.0
Restricted	382.8	442.0	319.3
Unrestricted	528.6	738.9	1,288.7
Total net position	\$ 6,683.8	\$ 6,881.7	\$ 7,201.0

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 2016 Compared to 2015. At June 30, 2016, net capital assets totaled \$10.3 billion, or 81.8 percent, of total assets and deferred outflows of resources, and were \$241.3 million higher than the prior year. The increase was primarily due to a \$256.4 million Board approved land purchase in the Palo Verde Irrigation District (PVID) in July 2015. Additional increase included Metropolitan's continued expenditures on the capital investment plan and net capital payments for participation rights in the State Water Project. This increase was offset by depreciation and amortization. Capital expenditures during fiscal year 2016 included \$105.2 million of participation rights in State Water project and other facilities and \$229.4 million (including \$24.7 million of capitalized interest) of construction work in progress (CIP) net of the land purchase. See the capital assets section below for additional information.

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 and net capital payments for participation rights in the State Water Project, offset by depreciation and amortization. In fiscal year 2015, total capital expenditures included \$124.3 million of participation rights in State Water Project and other facilities and \$221.7 million in CIP (including \$22.5 million of capitalized interest). See the capital assets section below for additional information.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
(CONTINUED)
June 30, 2016 and 2015

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 related to the net pension liability, deferred outflows for effective interest rate swaps, and cash and investments.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, other assets and deferred outflows totaled \$2.2 billion and were \$150.1 million lower than the prior year. Included in the decrease were \$129.2 million of lower cash and investments and \$45.7 million of lower deposits, prepaid costs, and other primarily due to \$42.6 million of lower prepaid water costs or 227.2 thousand acre-feet (TAF). These decreases were offset by \$22.8 million more of water inventory due to an increase in water storage of 144.5 TAF and \$22.8 million of higher deferred outflows of effective swaps due to a decrease in fair value of interest rate swaps.

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 TAF less than the prior year's comparable months. In addition, water inventory decreased by \$27.8 million and prepaid water costs decreased by \$26.5 million due to a reduction in water storage of 312.6 TAF.

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 2016 Compared to 2015. At June 30, 2016, long-term liabilities, net of current portion, totaled \$5.0 billion and were \$60.4 million higher than the prior year. The increase included \$72.8 million more of net pension liability due to the decrease of actual pension plan investment earnings as compared to the prior year, offset by \$34.3 million of employer contributions. In addition, fair value of interest rate swaps increased \$22.8 million due to lower interest rates as compared to the prior year. These increases were offset by \$39.8 million of lower long-term debt, net of current portion as \$87.4 million of self-liquidity bonds became current when the Revolving Credit Agreement (RCA) expired in March 2016. See the long-term debt section below for additional information.

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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
(CONTINUED)
June 30, 2016 and 2015

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 related to the net pension liability. Current liabilities include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, current liabilities and deferred inflows of resources totaled \$882.2 million, and were \$228.7 million higher than the prior year primarily due to \$250.0 million of revolving notes issued by Metropolitan in fiscal year 2016. In addition, current portion of long-term debt increased \$85.0 million as the RCA that covered the \$87.4 million 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds expired in March 2016. Offsetting these increases were \$69.1 million lower pension related deferred inflows of resources due to \$82.3 million lower actual pension plan investment earnings as compared to prior year partially offset by \$24.1 million of deferred pension expenses due to change in assumptions and \$28.3 million lower accounts payable and accrued expenses, which included \$14.9 million less of various vendor costs and \$14.9 million less of conservation credits due to customers.

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.

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 2016 Compared to 2015. At June 30, 2016, net investment in capital assets, including State Water Project costs totaled \$5.8 billion and was \$71.6 million more than the prior year. This increase includes \$256.4 million of PVID land purchase offset by the reduction in outstanding debt.

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.

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 2016 Compared to 2015. At June 30, 2016, restricted net position totaled \$382.8 million which was \$59.2 million lower than fiscal year 2015 primarily due to \$63.7 million of lower restricted for debt service.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

(CONTINUED)

June 30, 2016 and 2015

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.

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 2016 Compared to 2015. Unrestricted net position of \$528.6 million decreased \$210.3 million from the prior year primarily due to fiscal year 2016 net loss before contributions of \$200.0 million.

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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 June 30, 2016 and 2015

CHANGES IN NET POSITION

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

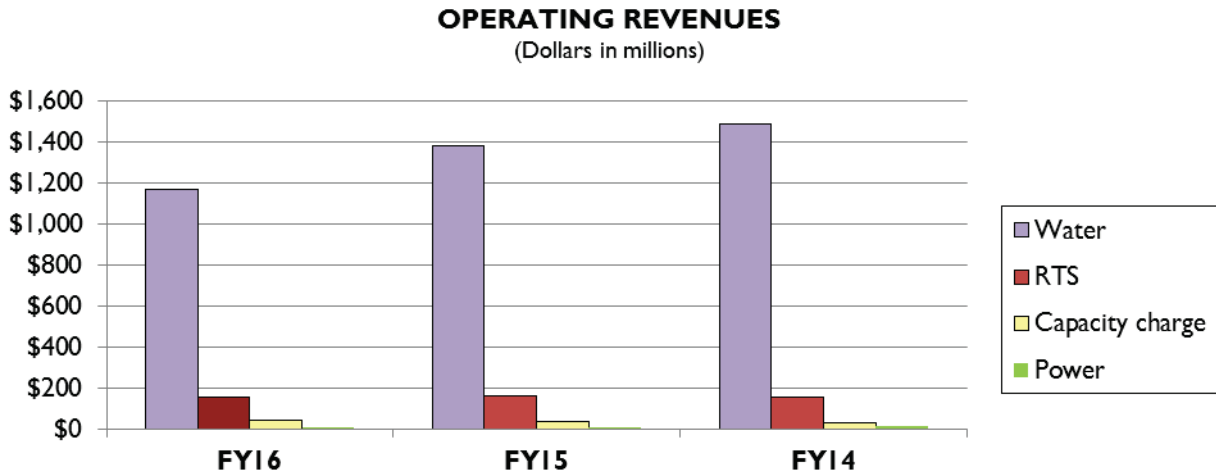
	Fiscal Year Ended June 30,		
	2016	2015	2014
(Dollars in millions)	As Adjusted ¹		
Water sales	\$ 1,166.0	\$ 1,382.9	\$ 1,484.6
Readiness-to-serve charges	155.5	162.0	154.0
Capacity charge	44.7	37.5	28.5
Power sales	7.5	8.4	14.6
Operating revenues	1,373.7	1,590.8	1,681.7
Taxes, net	107.9	102.3	94.5
Investment income (loss)	19.4	(3.6)	5.7
Other	10.2	5.4	—
Nonoperating revenues	137.5	104.1	100.2
Total revenues	1,511.2	1,694.9	1,781.9
Power and water costs	(552.3)	(473.6)	(510.1)
Operations and maintenance	(650.1)	(543.4)	(439.7)
Depreciation and amortization	(376.5)	(374.8)	(261.5)
Operating expenses	(1,578.9)	(1,391.8)	(1,211.3)
Bond interest, net of amount capitalized	(126.9)	(132.5)	(146.7)
Other	(5.4)	(1.2)	(25.3)
Nonoperating expenses	(132.3)	(133.7)	(172.0)
Total expenses	(1,711.2)	(1,525.5)	(1,383.3)
Income (loss) before contributions	(200.0)	169.4	398.6
Capital contributions	2.1	2.3	2.2
Changes in net position	(197.9)	171.7	400.8
Net Position			
Beginning of year, as previously reported	6,881.7	7,201.0	6,800.2
Cumulative effect of change in accounting principle	—	(491.0)	—
Beginning of year, as restated	6,881.7	6,710.0	6,800.2
Net position, end of year	\$ 6,683.8	\$ 6,881.7	\$ 7,201.0

¹ Related to the adoption of GASB 68 and GASB 71.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 June 30, 2016 and 2015

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

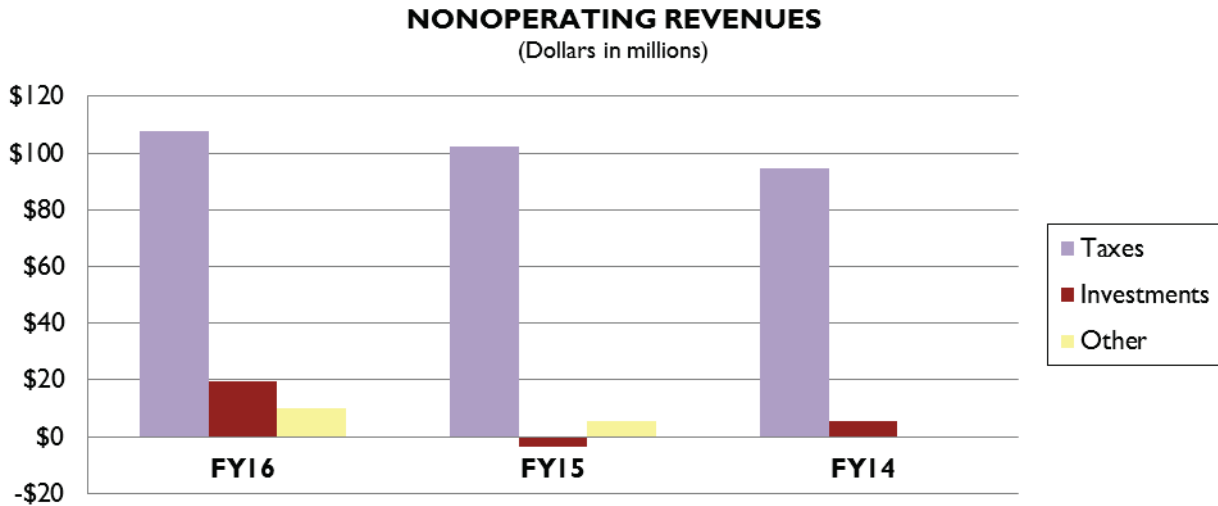
Fiscal Year 2016 Compared to 2015. Fiscal year 2016 operating revenues were \$1.4 billion or \$217.1 million less than the prior year primarily due to \$216.9 million of lower water sales, of which \$249.2 million related to 310.7 TAF of lower volumes sold offset by \$32.3 million from higher rates. The reduction in water sales was primarily due to the Governor’s requirement that retail water agencies implement conservation programs to reduce water consumption by an average of 25 percent statewide.

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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 June 30, 2016 and 2015

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.



Analytical Review of Nonoperating Revenues

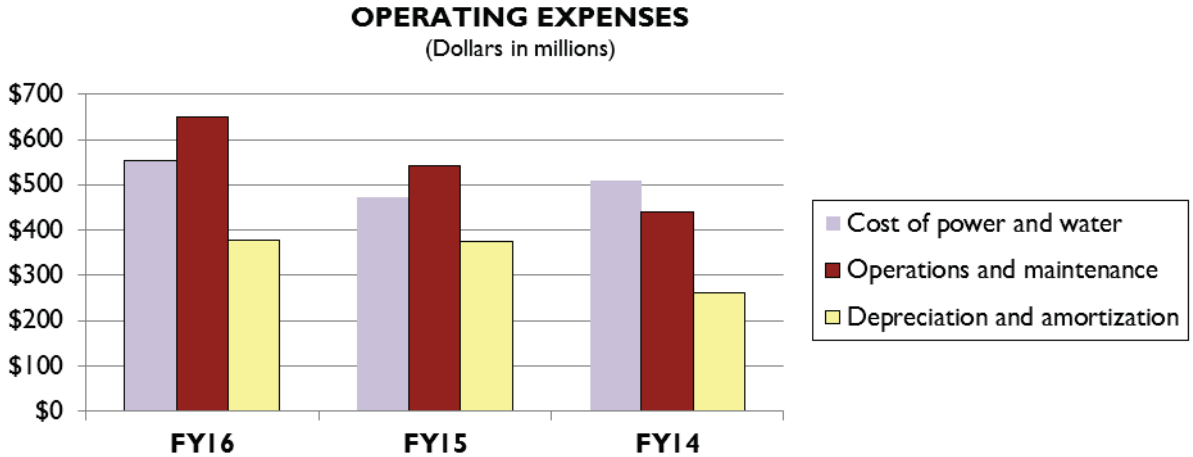
Fiscal Year 2016 Compared to 2015. Nonoperating revenues for fiscal year 2016 totaled \$137.5 million and were \$33.4 million higher than the prior year. Included in the increase was \$23.0 million of higher investment income primarily due to an \$18.7 million loss on swap termination that did not occur in the current year. In fiscal years 2015 and 2014, Metropolitan exercised its optional termination provisions and terminated some of its swap positions, which resulted in losses that are included in interest expense. In addition, property tax revenue increased \$5.6 million from the collection of delinquent taxes and other, net was \$4.8 million more primarily due to \$2.5 million of higher property rental revenue.

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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 June 30, 2016 and 2015

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 2016 Compared to 2015. Fiscal year 2016 operating expenses of \$1.6 billion were \$187.1 million higher than prior year. The increase included \$106.7 million of higher operations and maintenance costs primarily due to \$84.8 million higher conservation credits expenses as a result of the Board approving a historic \$450.0 million budget in fiscal year 2015 for conservation spending in response to the continued drought. In addition, power and water costs increased \$78.7 million primarily due to \$48.0 million higher State Water Project operation, maintenance, power and replacement (OMP&R) costs related to the Fish Restoration Program Agreement, biological opinions, and increased labor costs.

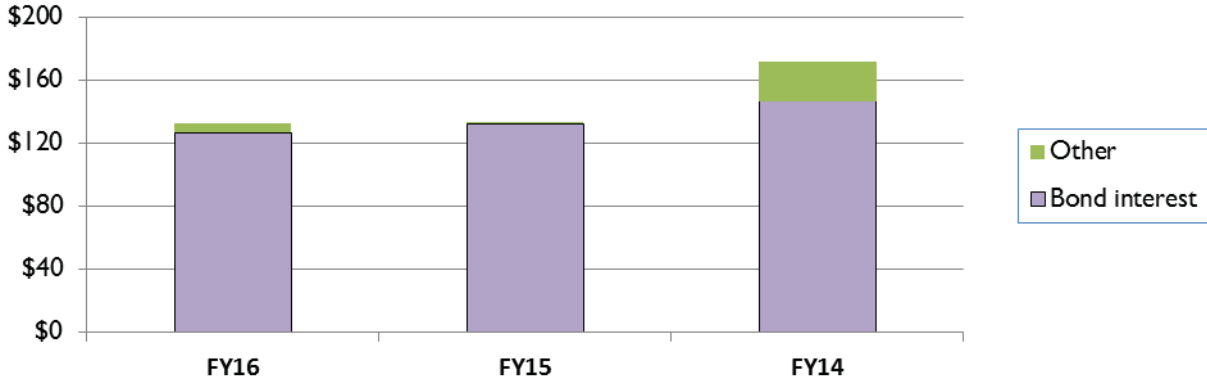
Fiscal Year 2015 Compared to 2014. Fiscal year 2015 operating expenses of \$1.4 billion were \$180.5 million higher than prior year. The increase included \$113.3 million of higher depreciation and amortization expense as a result of Metropolitan reassessing the useful lives of its plant assets and determining 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 discussed above.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 June 30, 2016 and 2015

Nonoperating Expenses

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

NONOPERATING EXPENSES
 (Dollars in millions)



Analytical Review of Nonoperating Expenses

Fiscal Year 2016 Compared to 2015. Fiscal year 2016 nonoperating expenses of \$132.3 million were \$1.4 million lower than the prior year primarily due to lower interest expense on bonds as a result of bond refunding transactions to take advantage of lower interest rates.

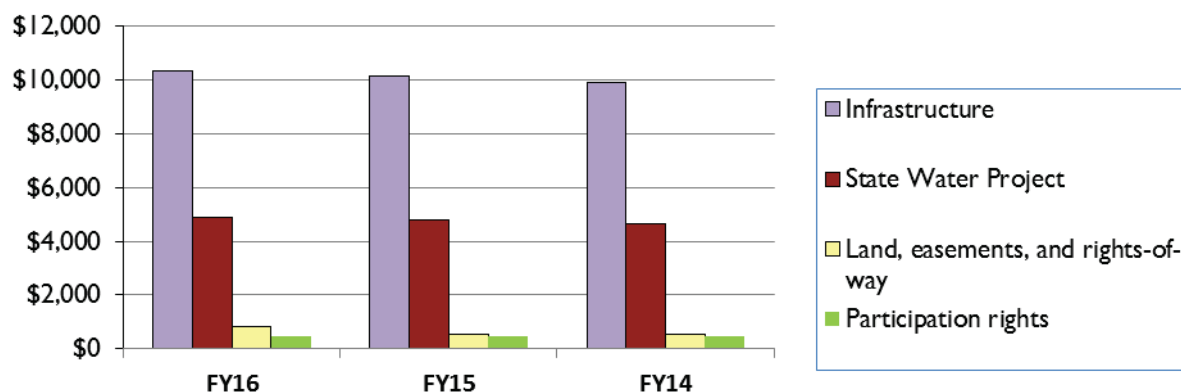
Fiscal Year 2015 Compared to 2014. Fiscal year 2015 nonoperating expenses of \$133.7 million were \$38.3 million lower than the prior year. Included in the decrease was \$22.9 million of construction in progress write-off in fiscal year 2014, due to determination by the Engineering Services Group that no operational asset would result from the costs incurred, 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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 June 30, 2016 and 2015

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

(Dollars in millions)	June 30,		
	2016	2015	2014
Land, easements and rights-of-way	\$ 833.7	\$ 557.6	\$ 554.6
Construction in progress	870.8	1,644.9	1,631.8
Parker power plant and dam	13.0	13.0	13.0
Power recovery plants	180.3	178.7	178.7
Other dams and reservoirs	1,542.2	1,541.7	1,537.5
Water transportation facilities	3,708.9	3,504.0	3,376.2
Pumping plants and facilities	293.5	240.7	240.5
Treatment plants and facilities	2,867.9	2,138.6	2,070.1
Buildings	136.1	136.1	136.1
Other plant assets	701.0	681.2	670.8
Pre-operating expenses original aqueduct	44.6	44.6	44.6
Participation rights in State Water Project	4,900.1	4,794.9	4,670.6
Participation rights in other facilities	459.7	461.9	456.1
Gross capital assets	16,551.8	15,937.9	15,580.6
Less accumulated depreciation and amortization	(6,212.4)	(5,839.8)	(5,476.0)
Capital assets, net	\$ 10,339.4	\$ 10,098.1	\$ 10,104.6
Net increase from prior year	\$ 241.3	\$ (6.5)	\$ 23.2
Percent change	2.4%	-0.1%	0.2%

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
(CONTINUED)
June 30, 2016 and 2015

Fiscal Year 2016 Compared to 2015. Net capital assets totaled approximately \$10.3 billion and increased \$241.3 million over the prior year. This increase included \$256.4 million PVID land purchase, \$229.4 million of new construction activity, and a net increase of \$105.2 million in participation rights in State Water Project. The increase was offset by depreciation and amortization of \$376.5 million.

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

- \$61.5 million for the improvements in infrastructure reliability at the treatment plants.
- \$31.7 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.
- \$24.5 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.
- \$23.4 million for the distribution system's rehabilitation program.
- \$18.2 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.
- \$17.7 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.
- \$15.5 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.

Metropolitan's fiscal year 2017 capital budget includes plans to spend \$246.0 million principally for the water treatment plants improvements program, the distribution system and rehabilitation projects, the Colorado River Aqueduct reliability and containment programs, the water quality/oxidation retrofit program, and the supply reliability and system expansion program.

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.
- \$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.
- \$14.7 million for the PCCP program.
- \$10.8 million for chlorine containment and handling facilities program.
- \$10.6 million for the information technology program.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 June 30, 2016 and 2015

LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

(Dollars in millions)	June 30,		
	2016	2015	2014
General obligation bonds (a)	\$ 92.9	\$ 110.4	\$ 132.3
Revenue bonds (a)	4,188.9	4,157.1	4,271.5
State revolving loan	9.1	10.7	11.7
Other, net (b)	232.5	200.0	200.9
	\$ 4,523.4	\$ 4,478.2	\$ 4,616.4
Increase (decrease) from prior year	\$ 45.2	\$ (138.2)	\$ (221.8)
Percent change	1.0%	(3.0%)	(4.6%)

(a) Includes refunding bonds.

(b) Consists of unamortized bond discounts and premiums.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, there was \$4.5 billion of outstanding bonds and other long-term obligations, a net increase of \$45.2 million or 1.0 percent from the prior year. The increase included the issuance of \$208.3 million revenue bonds and \$75.2 million of related bond premiums offset by \$144.0 million of scheduled principal payments, \$49.9 million principal reduction related to refunding transactions, and \$42.8 million of scheduled amortization of bond premiums and discounts.

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.

CREDIT RATINGS

Metropolitan's credit ratings at June 30, 2016, 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+

STATEMENTS OF NET POSITION

	June 30,	
	2016	2015
		As Adjusted
		Note 1q
(Dollars in thousands)		
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and investments, at fair value (Notes 1b and 3):		
Unrestricted (cost: \$734,735 and \$802,461 for 2016 and 2015, respectively)	\$ 737,877	\$ 803,532
Restricted (cost: \$399,088 and \$392,486 for 2016 and 2015, respectively)	400,795	393,010
Total cash and investments	<u>1,138,672</u>	<u>1,196,542</u>
Receivables:		
Water sales	224,571	223,397
Interest on investments	4,481	4,343
Other, net (Note 1e)	30,256	43,337
Total receivables	<u>259,308</u>	<u>271,077</u>
Inventories (Note 1f)	92,545	69,043
Deposits, prepaid costs, and other (Note 11)	1,726	2,839
Total current assets	<u>1,492,251</u>	<u>1,539,501</u>
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1b and 3):		
Unrestricted (cost: \$211,088 and \$268,947 for 2016 and 2015, respectively)	211,991	269,306
Restricted (cost: \$138,338 and \$152,956 for 2016 and 2015, respectively)	145,262	159,297
Total cash and investments	<u>357,253</u>	<u>428,603</u>
Capital assets (Note 2):		
Plant and equipment - non depreciable (Notes 1g and 9g)	1,704,537	2,202,531
Plant and equipment - depreciable (Notes 1g and 9g)	9,487,454	8,478,552
Participation rights in State Water Project (Notes 1h and 10)	4,900,137	4,794,958
Participation rights in other facilities (Notes 1h and 4)	459,709	461,909
Total capital assets	<u>16,551,837</u>	<u>15,937,950</u>
Less accumulated depreciation and amortization	<u>(6,212,401)</u>	<u>(5,839,828)</u>
Total capital assets, net	<u>10,339,436</u>	<u>10,098,122</u>
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 11)	196,927	241,542
Total other assets	<u>196,927</u>	<u>241,542</u>
Total noncurrent assets	<u>10,893,616</u>	<u>10,768,267</u>
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1p)	69,090	89,685
Loss on swap terminations (Note 1p)	35,422	38,626
Pension related (Notes 1q and 7)	48,475	34,306
Effective swaps (Note 1p)	38,480	15,686
Total deferred outflows of resources	<u>191,467</u>	<u>178,303</u>
Total Assets and Deferred Outflows of Resources	\$ 12,577,334	\$ 12,486,071

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

	June 30,	
	2016	2015
		As Adjusted Note 1q
(Dollars in thousands)		
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued expenses (Note 1i)	\$ 157,237	\$ 185,542
Revolving notes (Note 5a)	250,000	—
Current portion of long-term debt (Notes 5 and 6)	313,093	228,103
Current portion of obligations for off-aqueduct power facilities (Notes 6 and 9f)	3,265	3,276
Current portion of accrued compensated absences (Notes 1j and 6)	19,600	22,100
Current portion of customer deposits and trust funds (Note 6)	10,387	11,128
Current portion of workers' compensation and third party claims (Notes 6 and 14)	9,500	9,500
Current portion of other long-term obligations (Note 6)	1,880	1,883
Accrued bond interest	75,363	80,904
Matured bonds and coupons not presented for payment	1,835	1,858
Total current liabilities	842,160	544,294
Noncurrent Liabilities (Note 6):		
Long-term debt, net of current portion (Note 5)	4,210,342	4,250,134
Obligations for off-aqueduct power facilities, net of current portion (Note 9f)	11,079	14,717
Accrued compensated absences, net of current portion (Note 1j)	27,297	24,364
Customer deposits and trust funds, net of current portion	83,371	78,377
Net pension liability (Note 7)	479,555	406,794
Postemployment benefits other than pensions (Note 8)	83,544	83,514
Workers' compensation and third party claims, net of current portion (Note 14)	10,547	10,298
Fair value of interest rate swaps (Note 5f)	103,307	80,513
Other long-term obligations, net of current portion	2,229	2,226
Total noncurrent liabilities	5,011,271	4,950,937
Total liabilities	5,853,431	5,495,231
Commitments and Contingencies (Note 9)	—	—
Deferred Inflows of Resources:		
Pension related (Notes 1q and 7)	40,121	109,220
Net Position (Note 13):		
Net investment in capital assets, including State Water Project costs	5,772,364	5,700,796
Restricted for:		
Debt service	199,476	263,137
Other	183,340	178,782
Unrestricted	528,602	738,905
Total net position	6,683,782	6,881,620
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 12,577,334	\$ 12,486,071

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**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

	Fiscal Year Ended June 30,	
	2016	2015 As Adjusted Note 1q
<u>(Dollars in thousands)</u>		
Operating Revenues (Note 1c):		
Water sales	\$ 1,166,040	\$ 1,382,898
Readiness-to-serve charges	155,493	161,992
Capacity charge	44,705	37,473
Power sales	7,477	8,455
Total operating revenues	<u>1,373,715</u>	<u>1,590,818</u>
Operating Expenses:		
Power and water costs	552,306	473,569
Operations and maintenance	650,127	543,419
Total operating expenses	<u>1,202,433</u>	<u>1,016,988</u>
Operating income before depreciation and amortization	171,282	573,830
Less depreciation and amortization (Note 2)	<u>(376,522)</u>	<u>(374,826)</u>
Operating income (loss)	<u>(205,240)</u>	<u>199,004</u>
Nonoperating Revenues (Expenses) (Note 1m):		
Taxes, net (Note 1d)	107,922	102,305
Bond interest, net of \$24,700 and \$22,500 of interest capitalized in fiscal years 2016 and 2015, respectively (Note 1g)	<u>(126,945)</u>	<u>(132,503)</u>
Investment income (loss), net	19,384	(3,601)
Other, net	4,863	4,176
Total nonoperating revenues (expenses), net	<u>5,224</u>	<u>(29,623)</u>
Income (Loss) Before Contributions	<u>(200,016)</u>	<u>169,381</u>
Capital contributions (Note 1l)	2,178	2,305
Changes in net position	<u>(197,838)</u>	<u>171,686</u>
Net Position		
Beginning of year, as previously reported	6,881,620	7,200,964
Less: Cumulative effect of change in accounting principle (Note 1q)	—	(491,030)
Beginning of year, as restated	<u>6,881,620</u>	<u>6,709,934</u>
Net position, End of Year	<u>\$ 6,683,782</u>	<u>\$ 6,881,620</u>

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Fiscal Year Ended June 30,	
	2016	2015
Cash Flows from Operating Activities:		
Cash received from water sales	\$ 1,087,566	\$ 1,369,800
Cash received from readiness-to-serve charges	155,283	163,271
Cash received from capacity charge	44,662	36,795
Cash received from power sales	7,413	8,321
Cash received from other exchange transactions	77,323	78,954
Cash paid for operations and maintenance expenses	(503,627)	(368,987)
Cash paid to employees for services	(185,137)	(228,820)
Cash paid for power and water costs	(517,080)	(418,302)
Other cash flows for operating activities	(4,853)	(4,156)
Net cash provided by operating activities	161,550	636,876
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	8,880	6,899
SWAP termination payment	—	(16,954)
Net cash provided (used) by noncapital financing activities	8,880	(10,055)
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(494,671)	(210,903)
Payments for State Water Project costs	(108,637)	(127,434)
Payments for participation rights in other facilities	—	(5,800)
Proceeds from short and long-term debt	500,000	16,954
Payments for bond issuance costs	(1,762)	(2,663)
Proceeds from capital grants	—	546
Principal paid on long-term debt	(144,025)	(120,555)
Interest paid on long-term debt	(174,801)	(169,136)
Payments for other long-term obligations	(5,486)	(6,562)
Proceeds from tax levy	110,654	103,007
Transfer to/from escrow trust accounts	909	(8,912)
Collection of notes receivable - land sales	139	139
Net cash used by capital and related financing activities	(317,680)	(531,319)
Cash Flows from Investing Activities:		
Purchase of investment securities	(13,178,652)	(8,685,168)
Proceeds from sales and maturities of investment securities	13,303,690	8,573,934
Investment income	16,079	21,447
Net cash provided (used) by investing activities	141,117	(89,787)
Net change in cash	(6,133)	5,715
Cash at July 1, 2015 and 2014	6,172	457
Cash at June 30, 2016 and 2015 (Note 1b)	\$ 39	\$ 6,172

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Fiscal Year Ended June 30,	
	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (205,240)	\$ 199,004
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and amortization expense	376,522	374,826
Decrease in accounts receivable	9,578	39,209
(Increase) decrease in inventories	(23,502)	28,096
Decrease (increase) in deposits, prepaid costs, and other	37,668	(16,564)
(Decrease) increase in accounts payable and accrued expenses	(36,151)	40,079
Increase (decrease) in other items	2,675	(27,774)
Total Adjustments	366,790	437,872
Net cash provided by operating activities	\$ 161,550	\$ 636,876
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	\$ 489,219	\$ 220,170
Debt defeased through escrow trust fund with refunding debt	\$ (460,375)	\$ (217,140)
RECONCILIATION OF CASH AND INVESTMENTS TO CASH		
Unrestricted cash and investments (at June 30, 2016 and 2015 include \$39 and \$6,172 of cash, respectively)	\$ 949,868	\$ 1,072,838
Restricted cash and investments	546,057	552,307
Total cash and investments, at fair value	1,495,925	1,625,145
Less: carrying value of investments	(1,495,886)	(1,618,973)
Total Cash (Note 1b)	\$ 39	\$ 6,172

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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016 and 2015

I. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Reporting Entity**

The Metropolitan Water District of Southern California (Metropolitan), a special district of the State of California, was organized in 1928 by vote of the electorates of several Southern California cities following adoption of the Metropolitan Water District Act (Act) by the California Legislature. Metropolitan's primary purposes under the Act are to develop, store and distribute water, at wholesale, to its member public agencies for domestic and municipal purposes. Surplus water is sold for other beneficial uses, including agricultural use. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura. There are 26 independent member agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan has no financial accountability for its member agencies. Metropolitan is governed by a 38-member Board of Directors (Board) comprised of representatives of the member agencies. Representation and voting rights are based on assessed valuations of property. 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 2016 or 2015. 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.

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 Metropolitan's net position or change in net position.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(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 2015 and 2016, 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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

(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, 2016 and 2015 were as follows:

(Dollars in thousands)	June 30,	
	2016	2015
Water in storage	\$ 81,593	\$ 58,783
Operating supplies	10,952	10,260
Total inventories	\$ 92,545	\$ 69,043

(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 buildings, storage, and distribution facilities, 10 to 50 years for treatment plants and hydroelectric power recovery facilities, and 10 to 80 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.)

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

(i) Disaggregation of Payable Balances

Accounts payable and accrued expenses at June 30, 2016 and 2015 were as follows:

(Dollars in thousands)	June 30,	
	2016	2015
Department of Water Resources (State Water Project):		
Capital, operating, maintenance, power, replacement, and variable power	\$ 101,665	\$ 99,538
Vendors	38,524	53,473
Accrued power costs	2,160	3,717
Accrued salaries	7,232	5,535
Readiness-to-serve overcollection	1,182	1,936
Conservation credits	6,474	21,343
Total accounts payable and accrued expenses	\$ 157,237	\$ 185,542

(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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

(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 \$528.6 million and \$738.9 million at June 30, 2016 and 2015, 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, 2016 and 2015, respectively, were \$69.1 million and \$89.7 million, respectively. The deferred outflows from losses on swap terminations resulting in debt defeasance at June 30, 2016 and 2015, respectively, were \$35.4 million and \$38.6 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 \$38.5 million and \$15.7 million at June 30, 2016 and 2015, 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.

NOTES TO BASIC FINANCIAL STATEMENTS**(CONTINUED)**

June 30, 2016 and 2015

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. 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) Fair Value Measurement and Implementation of Accounting Principle

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72) requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. Metropolitan has been reporting its investments and liabilities at fair value using market approach and cost approach therefore, there are no significant changes to its reporting resulting from the implementation of GASB 72 in fiscal year 2016.

Additionally, GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. This hierarchy has three levels which are: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date; Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security. Metropolitan implemented the fair value hierarchy to its assets and liabilities, which are presented in Notes 3 and 5.

(s) New Accounting Pronouncements

The following pronouncements are effective beginning fiscal year ended June 30, 2016:

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*.

Metropolitan is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements that will be implemented in a future fiscal year:

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- OPEB Measurements by Agent Multiple-Employer Plans*. GASB 75 is effective for Metropolitan's fiscal year ending June 30, 2018.

NOTES TO BASIC FINANCIAL STATEMENTS**(CONTINUED)**

June 30, 2016 and 2015

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 requires the presentation of covered payroll, which is payroll on which contributions to a pension plan are based, and ratios that use that measure in required supplementary information instead of covered-employee payroll. In addition, GASB 82 clarifies that a deviation is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. GASB 82 further clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). GASB 82 is effective for Metropolitan's fiscal year ending June 30, 2017.

The following pronouncements were issued by GASB but were determined to not have an impact on Metropolitan's financial statements:

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* 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.

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*.

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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for a cost-sharing multiple employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). This statement establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. GASB 79 also establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81), which requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement and revenue when the resources become applicable to the reporting period. GASB 81 also requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

2. CAPITAL ASSETS

Certain assets from the miscellaneous category of capital assets were reclassified in fiscal years 2015 and 2014 to more appropriate categories such as: other dams and reservoirs, water transportation facilities, treatment plants and facilities, and buildings.

Capital asset activity for the fiscal years ended June 30, 2016 and 2015 was as follows:

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(Dollars in thousands)	June 30, 2014	Additions
Capital assets not being depreciated:		
Land, easements and rights of way	\$ 554,543	\$ 3,179
Construction in progress	1,631,942	221,749
Total capital assets not being depreciated	2,186,485	224,928
Other capital assets:		
Parker Power Plant and Dam	13,009	—
Power recovery plants	178,636	—
Other dams and reservoirs	1,537,468	4,252
Water transportation facilities	3,376,196	132,809
Pumping plants and facilities	240,507	180
Treatment plants and facilities	2,070,064	70,336
Power lines and communication facilities	33,517	300
Computer systems software	102,057	6,238
Buildings	136,096	—
Miscellaneous	443,931	1,787
Major equipment	91,322	6,866
Pre-operating interest and other expenses of original aqueduct	44,595	—
Participation rights in State Water Project (Note 10)	4,670,585	168,293
Participation rights in other facilities (Note 4)	456,109	5,800
Total other capital assets at historical cost	13,394,092	396,861
Accumulated depreciation and amortization:		
Parker Power Plant and Dam	(10,868)	(943)
Power recovery plants	(85,409)	(3,576)
Other dams and reservoirs	(302,743)	(19,809)
Water transportation facilities	(743,427)	(98,527)
Pumping plants and facilities	(75,163)	(3,764)
Treatment plants and facilities	(549,091)	(89,850)
Power lines and communication facilities	(9,641)	(517)
Computer systems software	(94,454)	(5,790)
Buildings	(25,138)	(1,862)
Miscellaneous	(99,927)	(18,100)
Major equipment	(75,609)	(4,845)
Pre-operating interest and other expenses of original aqueduct	(37,347)	(1,035)
Participation rights in State Water Project (Note 10)	(3,218,373)	(112,160)
Participation rights in other facilities (Note 4)	(148,784)	(13,766)
Total accumulated depreciation and amortization	(5,475,974)	(374,544)
Other capital assets, net	7,918,118	22,317
Total capital assets, net	\$ 10,104,603	\$ 247,245

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

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

Reductions	June 30, 2015	Additions	Reductions	June 30, 2016
\$ (139)	\$ 557,583	\$ 276,140	\$ —	\$ 833,723
(208,743)	1,644,948	229,419	(1,003,553)	870,814
(208,882)	2,202,531	505,559	(1,003,553)	1,704,537
—	13,009	—	—	13,009
—	178,636	1,665	—	180,301
(24)	1,541,696	484	—	1,542,180
(4,973)	3,504,032	205,118	(245)	3,708,905
(10)	240,677	52,834	—	293,511
(1,821)	2,138,579	729,770	(433)	2,867,916
(10)	33,807	—	—	33,807
(50)	108,245	9,505	(1,057)	116,693
—	136,096	—	—	136,096
—	445,718	7,323	—	453,041
(4,726)	93,462	6,170	(2,232)	97,400
—	44,595	—	—	44,595
(43,920)	4,794,958	186,737	(81,558)	4,900,137
—	461,909	—	(2,200)	459,709
(55,534)	13,735,419	1,199,606	(87,725)	14,847,300
—	(11,811)	(163)	—	(11,974)
—	(88,985)	(4,243)	—	(93,228)
24	(322,528)	(19,496)	—	(342,024)
4,288	(837,666)	(74,165)	194	(911,637)
10	(78,917)	(14,403)	—	(93,320)
1,594	(637,347)	(96,636)	188	(733,795)
9	(10,149)	(414)	—	(10,563)
50	(100,194)	(7,888)	643	(107,439)
—	(27,000)	(1,816)	—	(28,816)
—	(118,027)	(5,740)	—	(123,767)
4,715	(75,739)	(5,776)	2,223	(79,292)
—	(38,382)	(1,036)	—	(39,418)
—	(3,330,533)	(130,152)	—	(3,460,685)
—	(162,550)	(13,893)	—	(176,443)
10,690	(5,839,828)	(375,821)	3,248	(6,212,401)
(44,844)	7,895,591	823,785	(84,477)	8,634,899
\$ (253,726)	\$ 10,098,122	\$ 1,329,344	(1,088,030)	\$ 10,339,436
	\$ 248,618			\$ 231,776
	112,160			130,152
	13,766			13,893
	374,544			375,821
	282			701
	\$ 374,826			\$ 376,522

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

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, 2016 and 2015, Metropolitan's cash balances with financial institutions were \$34,000 and \$6,167,000 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, 2016 and 2015, Metropolitan had the following investments at fair value:

(Dollars in thousands)	June 30,	
	2016	2015
U.S. Treasury securities	\$ 389,382	\$ 261,091
U.S. Guarantees – GNMA's	5	7
Federal agency securities	213,794	204,001
Prime commercial paper	309,112	324,825
Medium-term corporate notes	185,661	219,601
Negotiable certificates of deposit	221,050	440,936
Shares of beneficial interest	288	532
Asset and mortgaged-backed securities	67,288	67,653
Municipal bonds	44,306	50,327
Local Agency Investment Fund	65,000	50,000
Total investments	\$ 1,495,886	\$ 1,618,973

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

Metropolitan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Metropolitan does not value any of its investments using level 3 inputs.

The following is the summary of the fair value hierarchy of the fair value of investments of Metropolitan as of June 30, 2016 and 2015:

	Fair Value Measurement Using								
		Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)			Significant Unobservable Inputs (Level 3)	
(Dollars in thousands)	6/30/2016	6/30/2016	6/30/2016	6/30/2016	6/30/2015	6/30/2015	6/30/2015	6/30/2015	6/30/2015
Investments by fair value level:									
U.S. Treasury securities	\$ 389,382	\$ 389,382	\$ —	\$ —	\$ 261,091	\$ 261,091	\$ —	\$ —	
U.S. Guarantees – GNMA's	5	5	—	—	7	7	—	—	
Federal agency securities	165,805	165,805	—	—	204,001	204,001	—	—	
Prime commercial paper	309,112	—	309,112	—	324,825	—	324,825	—	
Medium-term corporate notes	185,661	185,661	—	—	219,601	219,601	—	—	
Negotiable certificates of deposit	221,050	—	221,050	—	440,936	—	440,936	—	
Shares of beneficial interest ⁽¹⁾	288	—	—	288	532	—	—	532	
Asset and mortgage-backed securities	67,288	67,288	—	—	67,653	67,653	—	—	
Municipal bonds	44,306	44,306	—	—	50,327	50,327	—	—	
Total investments by fair value level	\$ 1,382,897	\$ 852,447	\$ 530,162	\$ 288	\$ 1,568,973	\$ 802,680	\$ 765,761	\$ 532	
Investments not subject to fair value level:									
Federal agency securities	47,989				—				
Local Agency Investment Fund	65,000				50,000				
Total investments	\$ 1,495,886				\$ 1,618,973				

⁽¹⁾ Dreyfus Treasury & Agency Cash Management (DTVXX)

Investments classified in Level 1 of the fair value hierarchy, valued \$852.5 million and \$802.67 million as of June 30, 2016 and 2015, respectively, are valued using quoted prices in active markets.

Prime commercial paper totaling \$309.1 million and \$324.8 million and negotiable certificates of deposit totaling \$221.1 million and \$440.9 million, as of June 30, 2016 and 2015, respectively, classified in Level 2 of the fair value hierarchy were valued using matrix pricing.

Federal agency securities totaling \$48.0 million as of June 30, 2016 was valued using cost.

Shares of beneficial interest totaling \$0.3 million and \$0.5 million as of June 30, 2016 and 2015, respectively, classified in Level 3 of the fair value hierarchy was valued at Fund's share price of \$1.00.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

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 2016 and 2015, the benchmark durations were 0.25 and 0.23, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 0.20. As of June 30, 2016 and 2015, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	June 30,			
	2016		2015	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 153,685	0.52	\$ 48,456	1.27
Federal agency securities	203,416	0.19	177,097	0.20
Prime commercial paper	309,112	0.06	324,825	0.07
Medium-term corporate notes	125,158	0.15	160,129	0.17
Negotiable certificates of deposit	221,050	0.15	440,756	0.09
Municipal bonds	7,663	0.19	2,000	7.47
Local Agency Investment Fund	65,000	—	50,000	—
Portfolio duration		0.18		0.17

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 2016 and 2015, the benchmark durations were 2.71 and 2.68, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of June 30, 2016 and 2015, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	June 30,			
	2016		2015	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 213,453	2.83	\$ 191,861	2.74
U.S. Guarantees – GNMMAs	5	5.04	7	5.67
Federal agency securities	7,595	6.25	18,890	2.48
Medium-term corporate notes	57,530	2.22	58,220	2.62
Shares of beneficial interest	288	—	532	—
Asset and mortgaged-backed securities	67,288	1.82	67,653	2.44
Portfolio duration		2.61		2.64

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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

As of June 30, 2016 and 2015, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	June 30,			
	2016		2015	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 22,244	5.35	\$ 20,774	6.32
Federal agency securities	2,783	1.20	8,014	1.56
Negotiable certificates of deposit	—	—	180	0.04
Medium-term corporate notes	2,973	0.17	1,252	0.23
Municipal bonds	36,643	5.82	48,327	7.32
Weighted average duration		5.20		6.34

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 & 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'.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

At June 30, 2016 and 2015, Metropolitan's portfolio was invested in the following securities by rating:

(Dollars in thousands)	Rating	June 30,	
		2016 Fair value	2015 Fair value
U.S. Treasury securities	AAA ⁽¹⁾	\$ 389,382	\$ 261,091
U.S. Guarantees – GNMA's	AAA	5	7
Federal agency securities	AAA ⁽¹⁾	213,794	204,001
Shares of beneficial interest	AAA	288	532
Asset and mortgage-backed securities	AAA	67,288	67,653
Medium-term corporate notes	A ⁽²⁾	185,661	219,601
Prime commercial paper	A1/P1 ⁽²⁾	309,112	324,825
Negotiable certificates of deposit	F1 ⁽²⁾	221,050	440,936
Municipal bonds	A ⁽²⁾	44,306	50,327
Local Agency Investment Fund	⁽³⁾	65,000	50,000
Total portfolio		\$ 1,495,886	\$ 1,618,973

(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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of June 30, 2016 and 2015.

	Investment Policy Limits	Percent of Portfolio	
		2016	2015
U.S. Treasury securities	100%	26.03 %	16.13 %
U.S. Guarantees – GNMMAs	100%	—	—
Federal agency securities	100%	14.29	12.60
Shares of beneficial interest	20%	0.02	0.03
Asset and mortgaged-backed securities	20%	4.50	4.18
Medium-term corporate notes	30%	12.41	13.56
Prime commercial paper	25%	20.66	20.06
Negotiable certificates of deposit	30%	14.78	27.24
Municipal bonds	30%	2.96	3.11
Local Agency Investment Fund	N/A	4.35	3.09
Total portfolio		100.00 %	100.00 %

At June 30, 2016 and 2015, 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,			
	2016		2015	
Federal National Mortgage Association	\$ 89,912	6.06 %	\$ 111,831	6.91 %
Federal Home Loan Mortgage Corporation	\$ —	— %	\$ 81,036	5.01 %

Custodial credit risk. At June 30, 2016 and 2015, 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 \$65.0 million and \$50.0 million in deposits in the California State managed LAIF as of June 30, 2016 and 2015, respectively.

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

The total amount invested by all public agencies in LAIF as of June 30, 2016 and 2015 was \$22.7 billion and \$21.5 billion, respectively. At June 30, 2016 and 2015, the PMIA had a balance of \$75.4 billion and \$64.8 billion, respectively, of which, 2.81 percent and 2.08 percent were invested in medium-term and short-term notes and asset-backed securities, respectively. The average maturity of LAIF investments as June 30, 2016 and 2015 was 167 days and 239 days, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(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, 2016 and 2015.

(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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

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NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

4. PARTICIPATION RIGHTS

Participation rights activity for the fiscal years ended June 30, 2016 and 2015 was as follows:

(Dollars in thousands)	June 30, 2014	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	5,800
Arvin-Edison Water Storage District	47,187	—
Chino Basin	27,500	—
Orange County	23,000	—
Conjunctive Use Programs	20,608	—
Total	456,109	5,800
Accumulated amortization:		
Imperial Irrigation District	(49,882)	(2,270)
Palo Verde Irrigation District	(21,703)	(2,343)
Kern Water District	(8,599)	(2,172)
South County Pipeline	(19,459)	(912)
Semitropic Water Storage District	(13,969)	(929)
Arvin-Edison Water Storage District	(15,886)	(1,467)
Chino Basin	(7,632)	(1,453)
Orange County	(6,273)	(1,195)
Conjunctive Use Programs	(5,381)	(1,025)
Total	(148,784)	(13,766)
Participations rights, net	\$ 307,325	\$ (7,966)

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

Reductions		June 30, 2015	Additions	Reductions		June 30, 2016
\$	—	\$ 112,313	\$ —	\$	—	\$ 112,313
	—	82,804	—		—	82,804
	—	39,007	—		—	39,007
	—	72,371	—		—	72,371
	—	37,119	—	(2,200)		34,919
	—	47,187	—		—	47,187
	—	27,500	—		—	27,500
	—	23,000	—		—	23,000
	—	20,608	—		—	20,608
	—	461,909	—	(2,200)		459,709
	—	(52,152)	(2,270)		—	(54,422)
	—	(24,046)	(2,343)		—	(26,389)
	—	(10,771)	(2,172)		—	(12,943)
	—	(20,371)	(912)		—	(21,283)
	—	(14,898)	(1,056)		—	(15,954)
	—	(17,353)	(1,467)		—	(18,820)
	—	(9,085)	(1,453)		—	(10,538)
	—	(7,468)	(1,195)		—	(8,663)
	—	(6,406)	(1,025)		—	(7,431)
	—	(162,550)	(13,893)		—	(176,443)
\$	—	\$ 299,359	\$ (13,893)	\$	(2,200)	\$ 283,266

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

(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), up to 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 85,000 and 101,105 acre-feet will be/was available in calendar years 2016 and 2015, respectively (see Note 9c). The water must be used in the calendar year the water is conserved, unless stored in a Colorado River reservoir pursuant to a separate agreement.

As capital projects were completed, the costs contributed by Metropolitan were capitalized as participation rights in Metropolitan's accounting records. The construction phase of this program was completed as of September 30, 1998, and the operation and maintenance phase commenced on October 1, 1998. The October 2003 amendment to the agreement extended the term through December 31, 2041 or 270 days beyond the termination of the Quantification Settlement Agreement plus any extension applicable over the agreement (see Note 9e).

Participation rights for this project totaled \$112.3 million as of June 30, 2016 and 2015, and are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$2.3 million in fiscal years 2016 and 2015.

(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 following 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 \$82.8 million as of June 30, 2016 and 2015, and are being amortized using the straight-line method over 35 years. Amortization expense totaled \$2.3 million in fiscal years 2016 and 2015.

(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 103,462 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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

Participation rights for the Kern Delta totaled \$39.0 million as of June 30, 2016 and 2015, and are being amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$2.2 million in fiscal years 2016 and 2015.

(d) South County Pipeline

In 1989, Metropolitan entered into an agreement with two member agencies and one of their subagencies to participate in the construction of an upsized version of a 26-mile long pipeline serving the south Orange County portion of its service area. Participation in this project provides Metropolitan capacity to transport its water in the central part of its service area.

Participation rights for this project totaled \$72.4 million as of June 30, 2016 and 2015. 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 in fiscal years 2016 and 2015.

(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 124,783 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 \$5.8 million to increase the return capacity by 13,200 acre-feet per year. In fiscal year 2016, that return capacity was reduced by 5,000 acre-feet per year to 8,200 acre-feet per year when Metropolitan received reimbursement of \$2.2 million.

Participation rights for this program totaled \$34.9 million and \$37.1 million as of June 30, 2016 and 2015, respectively. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$1.1 million and \$929,000 in fiscal years 2016 and 2015, 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 108,125 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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

The agreement also provides a transportation program whereby Metropolitan is provided priority rights to convey water acquired by Metropolitan from third parties through the Arvin-Edison facilities to the California Aqueduct for ultimate delivery to Metropolitan.

Participation rights for the Arvin-Edison program totaled \$47.2 million as of June 30, 2016 and 2015. These participation rights are amortized using the straight-line method over the longer life of the transportation program. Amortization expense totaled \$1.5 million in fiscal years 2016 and 2015.

(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 2016, 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 \$27.5 million as of June 30, 2016 and 2015. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$1.5 million in fiscal years 2016 and 2015.

(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 2016, Metropolitan had 418 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 \$23.0 million as of June 30, 2016 and 2015. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$1.2 million in fiscal years 2016 and 2015.

(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 2016, Metropolitan had a total of 667 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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

Participation rights in these projects totaled \$20.6 million at June 30, 2016 and 2015. These participation rights are amortized using the straight-line method over the remaining lives of the agreements. Amortization expense totaled \$1.0 million in fiscal years 2016 and 2015.

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 \$4.773 billion and \$4.478 billion at June 30, 2016 and 2015, respectively, represents less than one percent of the June 30, 2016 and 2015 total taxable assessed valuation of \$2,583 billion and \$2,451 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, 2016 and 2015, 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).

In April 2016, Metropolitan entered into a noteholder's agreement with RBC Municipal Products, LLC ("RBC") for the purchase by RBC and sale by Metropolitan of Metropolitan's Index Notes, Series 2016 ("RBC Facility"). Also in April 2016, Metropolitan entered into a note purchase and continuing covenant agreement with U.S. Bank National Association ("US Bank"), for the purchase by US Bank and sale by Metropolitan of Metropolitan's Flexible Rate Revolving Notes, Series 2016 ("US Bank Facility," and together with the RBC Facility, the "Short-Term Revolving Credit Facilities"). Metropolitan is permitted to sell up to \$200.0 million of notes under each of the Short-Term Revolving Credit Facilities for an aggregate amount of available borrowings of \$400.0 million. Metropolitan may borrow, pay down and re-borrow amounts under each of the Short-Term Revolving Credit Facilities. As of June 30, 2016, Metropolitan has sold \$250.0 million of notes under the Short-Term Revolving Credit Facilities (\$125.0 million under the RBC Facility and \$125.0 million under the US Bank Facility).

Each of the Short-Term Revolving Credit Facilities bears interest at a variable rate of interest. The US Bank Facility bears interest at a basis point spread to one-month London interbank offering rate ("LIBOR") for taxable borrowings or to 70 percent of one-month LIBOR for tax-exempt borrowings, while the RBC Facility bears interest at a spread to one-month LIBOR for taxable borrowings or to the SIFMA Municipal Swap Index for tax-exempt borrowings. Under the Short-Term Revolving Credit Facilities, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, each bank could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the Short-Term Credit Facilities as Senior Parity Obligations. Both Short-Term Credit Facilities will terminate on April 5, 2019.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

(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, 2016 and 2015. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of \$92.9 million and \$110.4 million in general obligation bonds and general obligation refunding bonds were outstanding at June 30, 2016 and 2015, 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, 2016 and 2015.

(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 \$4.189 billion and \$4.157 billion of revenue bonds and revenue refunding bonds were outstanding at June 30, 2016 and 2015, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through July 2045 at interest rates ranging from 0.62 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.

Revenue bond issued during the fiscal year ended June 30, 2016 was as follows:

- On December 19, 2015, Metropolitan issued \$208.3 million of Water Revenue Bonds, 2015 Authorization Series A, at a true interest cost of 3.11 percent, to finance a portion of the capital investment plan. The maturities extend to July 1, 2045 and are subject to mandatory and optional redemption provisions.

No revenue bonds were issued during fiscal year ended June 30, 2015.

(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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

Refunding and defeasance transactions during fiscal year 2016 were as follows:

- On July 1, 2015, Metropolitan issued \$188.9 million Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1 and A-2, at variable rates, to refund \$88.8 million of Water Revenue Bonds, 2000 Authorization, Series B-4, \$75.6 million of Water Revenue Bonds, 2005 Authorization, Series A, and \$29.8 million of Water Revenue Refunding Bonds, 2012 Series E-2 (Term Mode). The maturities of the 2015 Series A-1 and A-2 bonds extend to July 1, 2035 and are subject to optional and mandatory redemption provisions.
- On June 30, 2016, Metropolitan issued \$239.5 million Water Revenue Refunding Bonds, 2016 Series A, to refund \$175.0 million of Water Revenue Bonds, 2005 Authorization, Series C, \$85.0 million of Water Revenue Bonds, 2006 Authorization, Series A, and \$24.1 million of Water Revenue Refunding Bonds, 2006 Series B. The maturities of the 2016 Series A bonds extend to July 1, 2037 and are subject to optional and mandatory redemption provisions.

Refunding and defeasance transactions during fiscal year 2015 were as follows:

- On August 29, 2014, Metropolitan issued \$86.1 million of Water Revenue Refunding Bonds, 2014 Series E, \$7.9 million of Water Revenue Refunding Bonds, 2014 Series F (Federally Taxable) and \$57.8 million 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 \$79.2 million of Water Revenue Refunding Bonds, 2004 Series A-1 and A-2, \$83.5 million 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 \$49.6 million 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 \$54.4 million 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.

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 \$48.2 million and \$16.4 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of \$34.7 million and \$6.6 million for fiscal years 2016 and 2015, 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, 2016 and 2015 were \$69.1 million and \$89.7 million, respectively, and the deferred outflows on swap terminations for the same periods were \$35.4 million and \$38.6 million, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(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, 2016 and 2015, the outstanding balance was \$9.1 million and \$10.7 million, respectively.

(f) Interest Rate Swaps

Metropolitan has eight outstanding interest rate swap agreements as of June 30, 2016. These agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates which are Metropolitan's hedging derivative instruments.

Metropolitan's interest rate swap portfolio as of June 30, 2016, 2015, and 2014 are summarized on the following table.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(Dollars in thousands)

Associated Bond Issue ¹	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Counterparty Credit Rating ²
				57.74% of	
2002 A Payor	\$ 75,838	09/12/02	3.300%	1MoLIBOR ⁴	A3/BBB+/A
				57.74% of	
2002 B Payor	28,372	09/12/02	3.300%	1MoLIBOR	Aa3/A+/AA-
				61.20% of	
2003 Payor C-1 C-3	158,597	12/18/03	3.257%	1MoLIBOR	Aa2/AA-/AA
				61.20% of	
2003 Payor C-1 C-3	158,597	12/18/03	3.257%	1MoLIBOR	Aa3/A+/AA-
				61.20% of	
2004 Payor A-1 A-2	—	02/19/04	2.917%	1MoLIBOR	N/A
				61.55% of	
2004 C Payor	7,760	11/16/04	2.980%	1MoLIBOR	A3/BBB+/A
				61.55% of	
2004 C Payor	6,350	11/16/04	2.980%	1MoLIBOR	Baa1/BBB+/A
				70.00% of	
2005 Payor	29,058	07/06/05	3.360%	1MoLIBOR	Aa3/A+/AA-
				70.00% of	
2005 Payor	29,058	07/06/05	3.360%	1MoLIBOR	Baa1/A-/A
Total swaps	\$ 493,630				

¹ These swaps lock in a fixed rate for an equivalent amount of variable rate debt.

² Credit Ratings - Moody's Investors Service, Standard & Poor's, Fitch Ratings, respectively.

³ Excludes accrued interest.

⁴ London Interbank Offered Rate.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

Swap Termination	Fair Value as of 6/30 ³			Change in Fair Value in FY	
	2016	2015	2014	2016	2015
07/01/25	\$ (12,421)	\$ (10,962)	\$ (12,526)	\$ (1,459)	\$ 1,564
07/01/25	(4,646)	(4,097)	(4,677)	(549)	580
07/01/30	(34,653)	(26,897)	(26,218)	(7,756)	(679)
07/01/30	(34,653)	(26,897)	(26,218)	(7,756)	(679)
07/01/23	—	—	(9,239)	—	9,239
10/01/29	(1,592)	(1,156)	(1,068)	(436)	(88)
10/01/29	(1,283)	(938)	(867)	(345)	(71)
07/01/30	(7,088)	(4,805)	(7,369)	(2,283)	2,564
07/01/30	(6,971)	(4,761)	(7,323)	(2,210)	2,562
	\$ (103,307)	\$ (80,513)	\$ (95,505)	\$ (22,794)	\$ 14,992

As with its investments, Metropolitan categorizes its liabilities using fair value measurements within the fair value hierarchy established by generally accepted accounting principles and are discussed in Note 3.

Metropolitan has the following recurring fair value measurements as of June 30, 2016 and 2015:

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(Dollars in thousands)

Associated Bond Issue	Fair Value Measurements Using			
	6/30/2016	Significant Other Observable Inputs (Level 2)	6/30/2015	Significant Other Observable Inputs (Level 2)
2002 A Payor	\$ (12,421)	\$ (12,421)	\$ (10,962)	\$ (10,962)
2002 B Payor	(4,646)	(4,646)	(4,097)	(4,097)
2003 Payor C-1 C-3	(34,653)	(34,653)	(26,897)	(26,897)
2003 Payor C-1 C-3	(34,653)	(34,653)	(26,897)	(26,897)
2004 C Payor	(1,592)	(1,592)	(1,156)	(1,156)
2004 C Payor	(1,283)	(1,283)	(938)	(938)
2005 Payor	(7,088)	(7,088)	(4,805)	(4,805)
2005 Payor	(6,971)	(6,971)	(4,761)	(4,761)
Total swaps	\$ (103,307)	\$ (103,307)	\$ (80,513)	\$ (80,513)

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates, yield curves and credit spreads.

Pay-Fixed, Receive-Variable

Objective of the Swaps: In order to take advantage of low interest rates in the marketplace, Metropolitan entered into eight separate pay-fixed, receive-variable interest rate swaps at costs that were less than what Metropolitan otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

Terms: The notional amounts of the swaps match the principal amounts of the associated debt in total. Metropolitan's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated long-term debt.

Fair Values: At June 30, 2016, 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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

Credit Risks: As of June 30, 2016, 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, 2016.

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, 2016, 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, 2016, the interest rates of the variable rate debt associated with these swap transactions range from 0.36 percent to 1.00 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 0.27 percent to 0.46 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 \$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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(g) Swap Payments and Associated Debt

Using rates as of June 30, 2016, debt service requirements on Metropolitan's swap-related variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

(Dollars in thousands)	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
Year ending June 30:				
2017	\$ —	\$ 3,067	\$ 14,564	\$ 17,631
2018	—	3,067	14,564	17,631
2019	—	3,067	14,564	17,631
2020	—	3,067	14,564	17,631
2021	54,965	2,852	13,614	71,431
2022-2026	241,565	10,165	48,434	300,164
2027-2031	197,100	1,940	9,137	208,177
Total	\$ 493,630	\$ 27,225	\$ 129,441	\$ 650,296

(h) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from 0.36 percent to 1.00 percent as of June 30, 2016 and 0.01 percent to 0.41 percent as of June 30, 2015. 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, the 2011 SIFMA Index Bonds Series A-1 and A-3, and the 2013 Flexible Index Bond Series E provide bondholders a right to tender bonds to the paying agent every 270 days and 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. 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 June 30, 2016 and 2015, respectively. In addition, Metropolitan has eleven and ten series of variable rate bonds in the amounts of \$876.4 million and \$703.6 million as of June 30, 2016 and 2015, 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, in six equal semi-annual installments commencing between six months and 180 days after purchase by the bank.

The \$62.5 million 2008 Series A-2, Water Revenue Refunding Bonds, and \$88.8 million 2000 Series B-3, Water Revenue Bonds, have SBPAs that expire on September 23, 2016 and February 17, 2017, respectively. According to the provisions of the Paying Agent Agreement for the bonds, the Paying Agent will draw on the SBPA two business days prior to the SBPA expiration to redeem all outstanding bonds. Metropolitan is required to repay the bank in six semi-annual installments commencing six months or 180 days, respectively, after the draw on the facility. As a result, only \$10.4 million of the 2008 Series A-2 bonds have been classified as current liabilities as of June 30, 2016.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

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 June 30, 2016 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. At June 30, 2015, the outstanding self-liquidity variable rate bonds that were not supported by a SBPA 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, 2016 and 2015 had no long-term take out provisions therefore, the entire principal amount of \$339.9 million and \$167.2 million, respectively, may be tendered for purchase upon one week's notice from bondholders. However, on March 21, 2013 and July 1, 2015, Metropolitan entered into separate Revolving Credit Agreements (RCAs), by which Metropolitan may borrow up to \$96.5 million and \$180.0 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 and \$70.7 million of these self-liquidity bonds have been classified as current liabilities as of June 30, 2016 and 2015, respectively.

Metropolitan has two series of variable rate parity obligations, at June 30, 2016, the \$125.0 million Taxable Rate Revolving Notes, Series 2016 A-1 and the \$125.0 million Taxable Series 2016 Series B-1 Notes, pursuant to two Short-Term Revolving Credit Facilities with US Bank, and RBC. Both Notes pay a variable rate at a basis point spread to One Month LIBOR. While both Notes have a maturity date of April 5, 2017, the Short-Term Revolving Credit Facilities require US Bank and RBC to purchase refunding notes, subject to certain terms and conditions, through the Facilities expiration date of April 5, 2019.

(i) Long-term Debt Obligation Summary

Interest rates at June 30, 2016 on all outstanding fixed-rate obligations range from 1.28 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, 2016 are as follows:

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2017	\$ 147,252	\$ 161,357	\$ 308,610
2018	165,189	157,855	323,044
2019	162,524	149,876	312,400
2020	164,196	141,893	306,089
2021	157,827	133,689	291,516
2022-2026	837,215	562,014	1,399,229
2027-2031	900,710	402,952	1,303,662
2032-2036	1,003,025	246,254	1,303,662
2037-2041	731,525	93,336	824,861
2042-2046	21,505	2,312	23,817
	\$ 4,290,968	\$ 2,051,538	\$ 6,396,890
Unamortized bond discount and premium, net	232,467		
Total debt	4,523,435		
Less current portion	(313,093)		
Long-term portion of debt	\$ 4,210,342		

6. LONG-TERM LIABILITIES

Long-term liability activity for the fiscal years ended June 30, 2016 and 2015 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, 2016 and 2015

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(Dollars in thousands)	Maturity Dates	Range of Interest Rates	June 30, 2014	Additions
Waterworks general obligation refunding bonds (Note 5b):				
2004 Series A	3/1/15	5.00%	\$ 7,090	\$ —
2005 Series A	3/1/14-3/1/21	4.125%-5.000%	60,105	—
2009 Series A	3/1/14-3/1/28	3.50%-5.00%	33,650	—
2010 Series A	3/1/14-3/1/37	4.00%-5.00%	31,430	—
2014 Series A	3/1/16-3/1/21	2.00%-5.00%	—	49,645
Total general obligation and general obligation refunding bonds			132,275	49,645
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	10/1/14	5.00%	8,540	—
2005 Series A	7/1/28-7/1/35	5.00%	75,620	—
2005 Series C	7/1/28-7/1/35	4.50%-5.00%	175,000	—
2006 Series A	7/1/14-7/1/37	4.00%-5.00%	393,160	—
2008 Series A	1/1/15-1/1/39	2.50%-5.00%	187,830	—
2008 Series B	7/1/14-7/1/20	2.50%-4.00%	17,275	—
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	—
2015 Series A	7/1/18-7/1/45	4.00%-5.00%	—	—
Water revenue refunding bonds (Note 5d):				
1993 Series A-B	7/1/14-7/1/21	5.75%	105,185	—
2003 Series A	7/1/14	5.00%	11,780	—
2004 Series A-1-A-2	7/1/19-7/1/23	Variable	79,185	—
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	145,985	—
2008 Series B	7/1/14-7/1/22	4.00%-5.00%	127,410	—
2008 Series C	7/1/14-7/1/23	3.75%-5.00%	48,580	—
2009 Series A-1-A-2	7/1/20-7/1/30	Variable	104,180	—
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	7/1/14-7/1/21	2.25%-5.00%	70,390	—
2009 Series E	7/1/14-7/1/20	3.75%-5.00%	21,020	—
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	7/1/14-7/1/20	4.00%-5.00%	105,645	—
2011 Series C	10/1/14-10/1/36	2.25%-4.00%	156,600	—
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	7/1/14-7/1/16	0.616%-1.28%	30,330	—
2012 Series E	7/1/27-7/1/37	2.50%-3.50%	61,040	—
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	7/1/18	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%	—	86,060
2014 Series F	1/1/15	—	—	7,860
2014 Series G	7/1/37	2.00%-3.00%	—	57,840
2015 Series A-1, A-2	7/1/35	Variable	—	—
2016 Series A	7/1/28-7/1/37	2.00%-5.00%	—	—
Total water revenue and water revenue refunding bonds			4,271,540	151,760
Other long-term debt (Note 5e):				
State revolving fund loans	7/1/14-7/1/24	2.39%	11,675	—
Unamortized bond discount and premiums, net			200,896	28,619
Total long-term debt			4,616,386	230,024
Other long-term liabilities (see table next page)			278,077	46,880
Total long-term liabilities			\$ 4,894,463	\$ 276,904

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

Reductions		June 30, 2015	Additions	Reductions	June 30, 2016	Amounts Due Within One Year
\$	(7,090)	\$ —	\$ —	\$ —	\$ —	\$ —
	(60,105)	—	—	—	—	—
	(165)	33,485	—	(2,740)	30,745	3,745
	(4,140)	27,290	—	(4,225)	23,065	4,330
	—	49,645	—	(10,590)	39,055	9,885
	(71,500)	110,420	—	(17,555)	92,865	17,960
	—	177,600	—	(88,800)	88,800	—
	(8,540)	—	—	—	—	—
	—	75,620	—	(75,620)	—	—
	—	175,000	—	(175,000)	—	—
	(1,805)	391,355	—	(87,120)	304,235	1,990
	(4,305)	183,525	—	(4,410)	179,115	4,585
	(2,240)	15,035	—	(2,300)	12,735	2,375
	—	78,385	—	—	78,385	—
	—	250,000	—	—	250,000	—
	—	250,000	—	—	250,000	—
	—	—	208,255	—	208,255	—
	(3,345)	101,840	—	(15,300)	86,540	16,200
	(11,780)	—	—	—	—	—
	(79,185)	—	—	—	—	—
	—	24,055	—	(24,055)	—	—
	(83,520)	62,465	—	—	62,465	—
	(210)	127,200	—	(220)	126,980	7,150
	(6,780)	41,800	—	(7,100)	34,700	7,445
	—	104,180	—	—	104,180	—
	—	106,690	—	—	106,690	—
	—	91,165	—	—	91,165	—
	(5,650)	64,740	—	(5,880)	58,860	8,855
	(2,665)	18,355	—	(2,765)	15,590	2,875
	(4,670)	84,175	—	(4,845)	79,330	5,005
	—	228,875	—	—	228,875	430
	(32,415)	73,230	—	(37,470)	35,760	30,680
	(500)	156,100	—	(8,165)	147,935	500
	—	181,180	—	—	181,180	—
	—	98,585	—	—	98,585	—
	—	190,600	—	—	190,600	14,965
	(10,725)	19,605	—	(19,000)	605	605
	—	61,040	—	(29,820)	31,220	—
	—	60,035	—	(700)	59,335	—
	—	111,890	—	—	111,890	—
	—	87,445	—	—	87,445	87,445
	—	104,820	—	—	104,820	—
	—	95,935	—	—	95,935	—
	—	10,575	—	—	10,575	—
	—	30,335	—	—	30,335	—
	—	79,770	—	(16,195)	63,575	63,575
	—	86,060	—	—	86,060	—
	(7,860)	—	—	—	—	—
	—	57,840	—	—	57,840	—
	—	—	188,900	—	188,900	8,900
	—	—	239,455	—	239,455	—
	(266,195)	4,157,105	636,610	(604,765)	4,188,950	263,580
	(991)	10,684	—	(1,531)	9,153	1,039
	(29,487)	200,028	75,220	(42,781)	232,467	30,514
	(368,173)	4,478,237	711,830	(666,632)	4,523,435	313,093
	(66,575)	258,382	84,386	(60,306)	282,462	44,632
\$	(434,748)	\$ 4,736,619	\$ 796,216	\$ (726,938)	\$ 4,805,897	\$ 357,725

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(Dollars in thousands)	June 30,			June 30,			June 30,		Amounts
	2014	Additions	Reductions	2015	Additions	Reductions	2016	Within	Due
								One Year	One Year
Off-aqueduct power facilities (Note 9f)	\$ 22,232	\$ —	\$ (4,239)	\$ 17,993	\$ —	\$ (3,649)	\$ 14,344	\$ 3,265	\$ 3,265
Compensated absences	46,402	19,416	(19,354)	46,464	20,060	(19,627)	46,897	19,600	19,600
Customer deposits and trust funds	81,293	16,058	(7,846)	89,505	36,211	(31,958)	93,758	10,387	10,387
Workers' Compensation and third party claims (Note 14)	27,352	7,951	(15,505)	19,798	5,321	(5,072)	20,047	9,500	9,500
Fair value of interest rate swaps (Note 5f)	95,505	—	(14,992)	80,513	22,794	—	103,307	—	—
Other long-term obligations	5,293	3,455	(4,639)	4,109	—	—	4,109	1,880	1,880
Total other long-term liabilities	\$ 278,077	\$ 46,880	\$ (66,575)	\$ 258,382	\$ 84,386	\$ (60,306)	\$ 282,462	\$ 44,632	\$ 44,632

7. PENSION PLAN

(a) General Information about the Pension Plan

Plan Description

All full-time Metropolitan employees are required to participate in Metropolitan's Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual report. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Employees hired prior to January 1, 2013 (Classic members) with five years of total service are eligible to retire at age 50 with statutorily reduced benefits; employees hired after January 1, 2013 (PEPRA members) with at least five years of credited service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for improved non-industrial disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Metropolitan is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Metropolitan's total employer contributions were \$34.3 million and \$33.9 million for the fiscal years ended June 30, 2016 and 2015, respectively. The employee contribution rate was 7.0 percent of annual pay for Classic members and 6.75 percent for PEPRAs members for the measurement periods ended June 30, 2015 and 2014. Metropolitan contributes the full 7.0 percent for Classic members while PEPRAs members contribute the full 6.75 percent. At June 30, 2016 and 2015, Metropolitan's pickup of the employee's 7.0 percent share were \$12.4 million and \$12.7 million, respectively.

The Plans' provisions and benefits in effect at June 30, 2016 and 2015 are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Final average compensation period	12 months	36 months
Sick leave credit	Yes	Yes
Retirement age	50-67	52-67
Monthly benefits as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Cost of living adjustment	2.0%	2.0%
Required employee contribution rates		
2016	7.0%	6.75%
2015	7.0%	6.75%
Required employer contribution rates		
2016	19.738%	19.738%
2015	17.649%	17.649%

The following employees were covered by the benefit terms at June 30, 2016 and 2015:

	2016	2015
Inactive employees (or their beneficiaries) currently receiving benefits	1,907	1,876
Inactive employees entitled to but not yet receiving benefits	1,020	1,042
Active members	1,756	1,743
Total	4,683	4,661

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

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

Metropolitan's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability at June 30, 2016 and 2015 was measured as of June 30, 2015 and 2014, respectively, using an annual actuarial valuation as of June 30, 2014 and 2013, respectively. The actuarial valuations as of June 30, 2014 and 2013 were rolled forward to June 30, 2015 and 2014, respectively, using standard update procedures.

The total pension liabilities for the measurement dates of June 30, 2015 and 2014 were based on the following actuarial methods and assumptions:

Actuarial cost method		Entry Age Normal in accordance with the requirements of GASB 68
Actuarial assumptions		
Discount rate	2015	7.65%
	2014	7.50%
Inflation		2.75%
Salary increases	2015	Varies by entry age and service
	2014	3.30% to 14.20% depending on age, service, and type of employment
Investment rate	2015	7.65% Net of pension plan investment expenses, includes inflation
of return	2014	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, 2014 and 2013 valuations 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.

Change of Assumptions

The long-term discount rate should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2015 and 2014 measurement dates were 7.65 percent and 7.50 percent, respectively. 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 of the plans, the tests revealed the assets would not run out. Therefore, the discount rates used at June 30, 2015 and 2014 measurement dates were appropriate and the use of the municipal bond rate calculation was not deemed necessary. The long-term

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

expected discount rates of 7.65 percent and 7.50 percent at June 30, 2015 and 2014 measurement dates, respectively, were 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 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. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	New Strategic Allocation		Real Return Years 1-10 ¹		Real Return Years 11+ ²	
	2015	2014 ³	2015	2014	2015	2014
Global Equity	51.0 %	47.0 %	5.25 %	5.25 %	5.71 %	5.71 %
Global Fixed Income	19.0	19.0	0.99	0.99	2.43	2.43
Inflation Sensitive	6.0	6.0	0.45	0.45	3.36	3.36
Private Equity	10.0	12.0	6.83	6.83	6.95	6.95
Real Estate	10.0	11.0	4.50	4.50	5.13	5.13
Infrastructure and Fores	2.0	3.0	4.50	4.50	5.09	5.09
Liquidity	2.0	2.0	(0.55)	(0.55)	(1.05)	(1.05)
Total	100.0 %	100.0 %				

¹ An expected inflation of 2.5 percent used for this period

² An expected inflation of 3.0 percent used for this period

³ Rates of return are net of administrative expenses

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(c) Changes in the Net Pension Liability

The following tables show the changes in net pension liability recognized over the measurement periods of June 30, 2015 and 2014:

(Dollars in thousands)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at June 30, 2014 (VD)¹	\$ 1,969,332	\$ 1,562,538	\$ 406,794
Changes recognized for the measurement period:			
Service cost	28,890	—	28,890
Interest on the total pension liability	146,852	—	146,852
Changes of benefit terms	—	—	—
Differences between expected and actual experience	14,665	—	14,665
Changes of assumptions	(35,008)	—	(35,008)
Contributions from the employer	—	34,306	(34,306)
Contributions from employees	—	14,787	(14,787)
Net investment income	—	35,301	(35,301)
Benefit payments, including refunds of employee contributions	(86,154)	(86,154)	—
Administrative expenses	—	(1,756)	1,756
Net Changes	\$ 69,245	\$ (3,516)	\$ 72,761
Balance at June 30, 2015 (MD)¹	\$ 2,038,577	\$ 1,559,022	\$ 479,555

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

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(Dollars in thousands)	Increase (Decrease)		
	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	\$ 524,883
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	—	33,853	(33,853)
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	\$ 204,393	\$ (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 June 30, 2015 and 2014 measurement dates, calculated using the discount rate of 7.65 percent and 7.50 percent, respectively. The table also shows what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

(Dollars in thousands)	2015	2014
Discount Rate -1%	6.65 %	6.50 %
Net Pension Liability	\$ 743,272	\$ 654,299
Current Discount Rate	7.65 %	7.50 %
Net Pension Liability	\$ 479,555	\$ 406,794
Discount Rate +1%	8.65 %	8.50 %
Net Pension Liability	\$ 258,415	\$ 198,015

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

Pension Plan Fiduciary Net Position

Detailed information about the 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 on investments	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 June 30, 2015 measurement date is 3.2 years, which was obtained by dividing the total service years of 14,924 (the sum of remaining service lifetimes of the active employees) by 4,683 (the total number of participants: active, inactive, and retired). The EARSL for the June 30, 2014 measurement date of 3.2 years was obtained by dividing the total service years of 14,990 by the total number of participants of 4,661. 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, 2016 and 2015, Metropolitan recognized pension expense of \$23.7 million and \$21.0 million, respectively. At June 30, 2016 and 2015, Metropolitan has deferred outflows and inflows of resources related to pensions as follows:

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(Dollars in thousands)	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2016	2015	2016	2015
Pension contributions subsequent to measurement date	\$ 38,393	\$ 34,306	\$ —	\$ —
Differences between expected and actual experience	10,082	—	—	—
Changes of assumptions	—	—	(24,068)	—
Net difference between projected and actual earnings on pension plan investments	—	—	(16,053)	(109,220)
Total	\$ 48,475	\$ 34,306	\$ (40,121)	\$ (109,220)

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal year ended June 30, 2016 and 2015. At June 30, 2016 and 2015, the deferred outflows of resources related to contributions subsequent to the measurement date of \$38.4 million and \$34.3 million, respectively, will be/was recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2017 and 2016, respectively.

The net differences between projected and actual earnings on pension plan investments, difference between expected and actual experience, and changes of assumptions will be recognized in future pension expense as follows:

(Dollars in thousands)	Deferred Outflows/(Inflows) of Resources
Fiscal year ending June 30,	
2017	\$ (17,197)
2018	(17,197)
2019	(12,111)
2020	16,466
2021	—

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 1,572 and 1,528 retired Metropolitan employees at June 30, 2016 and 2015, 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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

(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 2016 and 2015, Metropolitan contributed, net of participant contributions as determined by CalPERS, \$23.1 million and \$79.5 million, respectively.

The fiscal year 2016 contribution included a single payment of \$23.1 million for the fiscal year annual required contribution (ARC). 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 ARC. It is Metropolitan's intent to fund the full ARC for all future years.

(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, 2016, and the two preceding fiscal years, were as follows:

(Dollars in Thousands)	June 30,		
	2016	2015	2014
Annual required contribution	\$ 23,096	\$ 29,457	\$ 39,910
Interest on net OPEB obligation	6,098	13,317	14,235
Adjustment to annual required contribution	(6,068)	(15,126)	(11,320)
Annual OPEB cost	23,126	27,648	42,825
Contributions made	(23,096)	(79,457)	(103,851)
(Decrease) increase in net OPEB obligation	30	(51,809)	(61,026)
Net OPEB obligation, beginning of year	83,514	135,323	196,349
Net OPEB obligation, end of year	\$ 83,544	\$ 83,514	\$ 135,323

For fiscal years 2016 and 2015, Metropolitan's annual OPEB cost was \$23.1 million and \$27.6 million, respectively. In fiscal years 2016 and 2015, Metropolitan contributed \$23.1 million and \$79.5 million to the OPEB trust, which included the pay-as-you-go amounts of \$13.9 million and \$13.0 million, respectively. In fiscal year 2014, Metropolitan contributed \$90.8 million to the OPEB trust in addition to the pay-as-you-go amount of \$13.1 million. These contributions represented 99.9, 287.4, and 242.5 percent of the annual OPEB cost in fiscal years 2016, 2015, and 2014, 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 years 2016 and 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 7.80 percent, grading down to 5.0 percent over six years, (ii) Non-Medicare – starting at 7.50 percent, grading down

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

to 5.0 percent over six 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, 2015, was as follows:

(Dollars in thousands)

Actuarial accrued liability (AAL)	\$ 423,420
Actuarial value of plan assets	164,669
Unfunded actuarial accrued liability (UAAL)	<u>\$ 258,751</u>
Funded ratio (actuarial value of plan assets/AAL)	38.9%
Covered payroll (active plan members)	\$ 207,512
UAAL as a percentage of covered payroll	<u>124.7%</u>

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:

	State Water Contract Payments
Year ending June 30:	
2017	\$ 449,842,301
2018	443,092,297
2019	452,968,871
2020	448,787,174
2021	<u>442,790,708</u>

NOTES TO BASIC FINANCIAL STATEMENTS

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June 30, 2016 and 2015

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:

	State Water Long-Term Commitments
Transportation facilities	\$ 4,193,347,994
Conservation facilities	2,501,493,526
Off-aqueduct power facilities (see Note 9f)	7,271,062
East Branch enlargement	454,313,393
Revenue bond surcharge	778,400,013
Total long-term SWP contract commitments	\$ 7,934,825,988

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 \$14.3 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 (DSC), a seven member appointed body charged with developing a Delta Plan to support carrying out the Delta Vision, which the DSC completed on September 1, 2013. The 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 2016, priorities include implementation of the Delta Plan, development of a Delta levee improvement prioritization plan, and implementation of Delta Science Program recommendations. In addition, the DSC has adapted the 19 Principles for Water Conveyance in the Delta, Storage Systems, and for the Operation of Both to Achieve the Coequal Goals.

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

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

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). Final decisions have not been made yet with regard to going forward with the BDCP/CA WaterFix proposed alternative. These decisions are expected to be made once the final Environmental Impact Report and Environmental Impact Statement are finalized and adopted by the lead state and federal agencies under the California Environmental Quality Act (CEQA) and National Environmental Policy Act (NEPA) processes, scheduled for the latter part of 2016. The permits to comply with the State and federal Endangered Species Acts are also anticipated to be finalized in the same time period.

(c) Imperial Irrigation District

As of June 30, 2016, Metropolitan had advanced to the Imperial Irrigation District (IID) a total of \$310.0 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 85,000-105,000 acre-feet in 2016 and annually thereafter depending upon the amount used by the Coachella Valley Water District. A total of at least 85,000 and 101,105 acre-feet will be/was available in calendar years 2016 and 2015, 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

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

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. On April 13, 2016, SDCWA filed a new lawsuit challenging the rates and charges adopted by Metropolitan on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. 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.

(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, 2016, 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:			
2017	\$ 3,265	\$ 634	\$ 3,899
2018	1,240	482	1,722
2019	1,279	438	1,717
2020	1,496	391	1,887
2021	2,007	332	2,339
2022-2026	4,852	509	5,361
2027	205	7	212
Total obligations	14,344	<u>\$ 2,793</u>	<u>\$ 17,137</u>
Less current portion	<u>(3,265)</u>		
Long-term portion of obligations	<u>\$ 11,079</u>		

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(CONTINUED)

June 30, 2016 and 2015

(g) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2017 through 2021 totals approximately \$1.46 billion. However, due to various uncertainties such as lower than anticipated construction bids, permitting delays, and facility shutdown constraints, anticipated spending is forecasted at \$200.0 million per year for the next 5 years.

Over the next three years, approximately \$735.0 million is budgeted in the capital program, with over \$400.0 million planned for major efforts such as seismic retrofits, mechanical and electrical improvements to components of the Colorado River Aqueduct, seismic retrofits and process component replacements at the Diemer and Weymouth treatment plants, completion of construction and startup of the Weymouth Oxidation Retrofit Program (ORP), Lakeview Pipeline Refurbishment, Palos Verdes Reservoir Floating Cover Replacement, Second Lower Feeder PCCP Refurbishment.

The capital program over the next 3 years also includes \$40.0 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:

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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(Dollars in thousands)	June 30,	
	2016	2015
Weymouth Oxidation retrofit project	\$ 2,116	\$ 13,514
Weymouth solar power facilities	21	10,535
Yorba Linda power plant turbine-generator	—	317
Diemer butterfly valve replacement	—	41
Diemer electrical improvements	1,357	3,353
Jensen washwater tanks seismic upgrades	—	507
Chemical unloading facility chlorine containment and handling facilities	3,370	15,407
Inland feeder and Lakeview pipeline intertie	—	446
Weymouth filter rehabilitation	15,271	30,758
Diemer east filter upgrades	1,032	8,541
Jensen module 1 filter valve replacement	598	3,078
LADWP lagoon replacement	884	2,881
Mills industrial wastewater handling improvement	1,124	2,385
Hinds and Eagle mountain pumping plants washwater system replacement	12	1,915
Emergency radio communication system replacement	—	1,011
Weymouth east washwater tank seismic upgrades	—	1,465
Diemer south slope revegetation and mitigation	20	858
Jensen solids transfer system	12	309
Diemer east basin rehabilitation	12,244	—
Weymouth chemical upgrades	8,146	—
Colorado River Aqueduct sand trap equipment replacement	7,996	—
Colorado River Aqueduct erosion protection curbing	1,732	—
Palos Verdes reservoir cover and liner replacement	26,026	—
Jensen electrical upgrades - stage 1A	10,669	—
Etiwanda pipeline north, liner repair phase 2	9,365	—
Diamond Valley Lake inlet/outlet tower fish screen replacement	1,885	—
Other	2,982	3,479
Total	\$ 106,862	\$ 100,800

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

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

(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 affect 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 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, Metropolitan will be obligated to reconsider and modify rates 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 a "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,"

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

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 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 \$188.3 million. On October 9 and 30, 2015, the trial court granted SDCWA's motion for prejudgment interest at the statutory rate of 10 percent on these damages. The prejudgment interest award through entry of judgment is \$46.6 million. After entry of judgment, post-judgment interest began accruing at the rate of 7 percent. 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. On December 7, 2015, SDCWA filed a Notice of Cross-Appeal concerning the rate structure integrity cause of action. On November 16, 2015, Metropolitan filed a motion for new trial in the two cases. The motion asked the court to vacate the judgment and preceding decision due to certain errors. On December 23, 2015, the trial court denied the motion. On January 21, 2016, the court awarded \$320,084 in costs to SDCWA, after deducting amounts based on Metropolitan's motion. On March 24, 2016, the court awarded \$8.9 million in attorneys' fees to SDCWA, rejecting its demand for over \$17.0 million. On April 11, 2016, Metropolitan filed a Notice of Appeal of the attorneys' fees order and on April 19, 2016, SDCWA filed a Notice of Cross-Appeal of the order. On May 5, 2016, Metropolitan and the nine member agency parties filed their Appellants' Opening Brief. Metropolitan is unable to assess at this time the likelihood of success of this litigation, the 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. On November 20, 2015, SDCWA filed a motion to partially lift the stay. On December 21, 2015, the trial court denied that motion and the case remains stayed. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On April 13, 2016, SDCWA filed a new lawsuit that alleges all rates and charges for 2017 and 2018 adopted by Metropolitan's Board on April 12, 2016 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts misallocation of costs as alleged in the previous cases listed above and additional claims of over-collection and misallocation of costs and procedural violations, and states SDCWA intends to amend to allege further claims including breach of contract. In a claim letter dated May 2, 2016, SDCWA asserted three breaches of the exchange agreement: the same breach alleged in the previous cases listed above, breach of a provision that requires Metropolitan to set aside disputed amounts, and breach of a provision concerning characterizing exchange water for certain purposes in the same manner as local water of other member agencies. On May 9, 2016, Metropolitan filed a motion to transfer venue from Los Angeles County. On June 30, 2016, the nine member agencies that are interested parties to the 2010, 2012, 2014 cases filed answers to also join the 2016 case as interested parties in support of Metropolitan. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

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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 Diemer, Jensen, Mills, and Skinner plants. Construction of ozonation facilities at the Weymouth plant is on-going and should be completed in 2017. 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 paid approximately 75.0 percent of DWR's costs associated with the generation of electricity at the Plant and will pay this proportion of DWR's assigned mitigation costs.

(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 years 2016 and 2015, \$0 and \$6,000 were expended for postclosure maintenance and monitoring activities, respectively.

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, 2016 and 2015, approximately \$811,000 and \$812,000 net of interest receipts and disbursements were available, respectively, in this account.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

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 20 percent and 25 percent of Metropolitan's total expenditures during fiscal years ended June 30, 2016 and 2015, 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 \$130.2 million and \$112.2 million in fiscal years 2016 and 2015, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

II. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at June 30, 2016 and 2015 were as follows:

(Dollars in thousands)	June 30,	
	2016	2015
Prepaid water costs	\$ 111,143	\$ 153,765
Prepaid costs-Delta Habitat conservation and conveyance	58,940	58,954
Prepaid costs-Bay/Delta	2,252	2,252
Prepaid expenses	12,875	10,150
Preliminary design/reimbursable projects	8,705	13,148
Other	4,738	6,112
Total deposits, prepaid costs, and other	198,653	244,381
Less current portion	(1,726)	(2,839)
Noncurrent portion	\$ 196,927	\$ 241,542

(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, 2016 and 2015, deferred water costs totaled approximately \$111.1 million and \$153.8 million, respectively, based on volumes of 547,000 acre-feet and 775,000 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

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2016 and 2015

\$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 \$0 and \$105,000 for fiscal years ended June 30, 2016 and 2015, respectively. During fiscal year 2001, Metropolitan became trustee for the unspent funds, which totaled \$2.3 million at June 30, 2016 and 2015.

(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, 2016 and 2015, 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, 2016 and 2015, 1,667 and 1,547 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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

Contributions to the savings plan were as follows:

(Dollars in thousands)	June 30,	
	2016	2015
Employees	\$ 21,203	\$ 19,829
Metropolitan	8,669	8,120
	<u>\$ 29,872</u>	<u>\$ 27,949</u>
Eligible payroll	\$ 214,639	\$ 207,512
Employee contributions as percent of eligible payroll	9.9%	9.6%

13. NET POSITION

Net position is classified as either restricted, unrestricted, or net investment in capital assets, including State Water Project Costs.

Net investment in capital assets, including State Water Project costs consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition or construction of those assets and related deferred outflows and inflows of resources related to debt. 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 \$5.8 billion and \$5.7 billion at June 30, 2016 and 2015, 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 \$382.8 million and \$442.0 million at June 30, 2016 and 2015, respectively, of which \$199.5 million and \$263.2 million, respectively, represents principal and interest set aside for the next bond payment. The remaining \$183.3 million and \$178.8 million, respectively, relates to estimated operating and maintenance expense for July and August of the subsequent fiscal year. Each of these requirements is related to bond covenants.

The unrestricted component of net position are those items that do not meet the definition of "restricted" or "net investment in capital assets, including State Water Project costs." Unlike the restricted net position, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The Board may at any time change or eliminate amounts established for these purposes. Unrestricted net position totaled \$528.6 million and \$738.9 million at June 30, 2016 and 2015, respectively.

14. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to the design, construction, treatment, and delivery of water resources. Metropolitan self-insures most of its property losses, the first \$25.0 million for general liability 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. Metropolitan also carries coverage limits of \$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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

June 30, 2016 and 2015

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. The present value of liabilities for unpaid claims is based on a 1.5 percent annual interest rate over the life of the claims. Changes in the balances of claims liabilities during the past three fiscal years were as follows:

(Dollars in Thousands)	June 30,		
	2016	2015	2014
Unpaid claims, beginning of fiscal year	\$ 19,798	\$ 27,352	\$ 27,239
Incurred claims (including IBNR)	5,321	7,951	9,184
Claim payments and adjustments	(5,072)	(15,505)	(9,071)
Unpaid claims, end of fiscal year	20,047	19,798	27,352
Less current portion	(9,500)	(9,500)	(15,500)
Noncurrent portion	\$ 10,547	\$ 10,298	\$ 11,852

15. SUBSEQUENT EVENT

On July 1, 2016, Metropolitan issued \$45.8 million Tax Exempt Flexible Rate Revolving Notes, 2016 Series B-1, at variable rates, to refund \$31.2 million of Water Revenue Refunding Bonds, 2012 Series E-3 and \$14.6 million of Water Revenue Refunding Bonds, 2014 Series G-1. The maturity extends to June 30, 2017 and is subject to optional redemption provisions.

On September 20, 2016, Metropolitan issued \$103.7 million Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1 and B-2, at variable rates, to refund \$62.5 million Water Revenue Refunding Bonds, 2008 Series A-2 and \$45.8 million Tax Exempt Flexible Rate Revolving Notes, 2016 Series B-1. Their maturities extend to July 1, 2037 and are subject to optional and mandatory redemption provisions.

On September 20, 2016, Metropolitan entered into Standby Bond Purchase Agreement (SBPA) in which Metropolitan may borrow up to \$104.8 million to pay the purchase price (principal and accrued interest) of the Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1 and B-2 bonds tendered for purchase. The SBPA permits repayment of any borrowed funds over a five year term-out period beginning 180 days after the date that the funds were borrowed.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED
June 30, 2016 and 2015

Schedule of Changes in Net Pension Liability and Related Ratios

(Dollars in thousands)	2016	2015
TOTAL PENSION LIABILITY		
Service cost	\$ 28,890	\$ 28,505
Interest on total pension liability	146,852	139,190
Changes in benefit terms	—	—
Difference between expected and actual experience	14,665	—
Changes of assumptions	(35,008)	—
Benefit payments, including refunds of employee contributions	(86,154)	(81,391)
Net change in total pension liability	69,245	86,304
Total pension liability - beginning	1,969,332	1,883,028
Total pension liability - ending (a)	\$ 2,038,577	\$ 1,969,332
PLAN FIDUCIARY NET POSITION		
Contribution - Employer	\$ 34,306	\$ 33,853
Contribution - Employee	14,787	15,185
Net investment income ¹	35,301	236,746
Benefit payments, including refunds of employee contributions	(86,154)	(81,391)
Administrative expense	(1,756)	—
Net change in fiduciary net position	(3,516)	204,393
Plan fiduciary net position - beginning	1,562,538	1,358,145
Plan fiduciary net position - ending (b)	\$ 1,559,022	\$ 1,562,538
Plan net pension liability - ending (a) - (b)	\$ 479,555	\$ 406,794
Plan fiduciary net position as a percentage of the total pension liability	76.48%	79.34%
Covered-employee payroll	\$ 207,512	\$ 202,861
Plan net pension liability as a percentage of covered-employee payroll	231.10%	200.53%

¹ 2015 amount was net of administrative expenses of \$1,972.

² GASB 68 requires ten years of information be presented but only two years are available at this time. Additional years' information will be displayed as it becomes available.

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, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes of Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED
(CONTINUED)
June 30, 2016 and 2015

Schedule of Plan Contributions¹

(Dollars in thousands)	2016	2015
Actuarially determined contribution ²	\$ 38,393	\$ 34,306
Contributions in relation to the actuarially determined contribution ²	<u>(38,393)</u>	<u>(34,306)</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>
Covered-employee payroll	\$ 214,639	\$ 207,512
Contributions as a percentage of covered-employee payroll	17.89%	16.53%

¹ As prescribed in GASB 68, paragraph 46, the information presented in the Schedule of Plan Contributions should also be determined as of the employer's most recent fiscal year-end. The employer is responsible for determining this information as prescribed by the standard as this data is not available to CalPERS.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ GASB 68 requires ten years of information be presented but only two years are available at this time. Additional years' information will be displayed as it becomes available.

Notes to Schedule:

Methods and assumptions used to actuarially determine contributions rates for fiscal year 2016:

Valuation date: June 30, 2013

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level of percent of payroll/21 years as of the Valuation Date
Asset Valuation Method	Market value
Inflation	2.75%
Salary Increases	Varies by Entry age and service
Payroll Growth	3.00%
Investment Rate of Return	7.50% net of pension plan investment and administrative expenses; include inflation
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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED

(CONTINUED)

June 30, 2016 and 2015

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
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%
6/30/15*	\$ 423,420	\$ 164,669	\$ 258,751	38.89%	\$ 207,512	124.7%

* Most recent actuarial valuation date.

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**THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA**

Basic Financial Statements

Six Months ended December 31, 2016 and 2015

(Unaudited)

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UNAUDITED
December 31, 2016 and 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

December 31, 2016 and 2015

(Unaudited)

The following discussion and analysis of The Metropolitan Water District of Southern California's (Metropolitan) financial performance provides an overview of the financial activities for the six months ended December 31, 2016 and 2015. 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 2016 and 2015 have been reclassified to conform to the fiscal year 2017 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 Pensions - 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 year ended June 30, 2014 because the necessary actuarial information from the California Public Employees' Retirement System was not provided for fiscal year 2014. 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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 December 31, 2016 and 2015
 (Unaudited)

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

(Dollars in millions)	December 31,		
	2016	2015	2014
Assets and deferred outflows of resources			
Capital assets, net	\$ 10,547.9	\$ 10,386.4	\$ 10,166.8
Other assets and deferred outflows of resources	2,188.0	2,280.9	2,490.0
Total assets and deferred outflows of resources	12,735.9	12,667.3	12,656.8
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	4,978.3	4,937.7	4,571.7
Current liabilities and deferred inflows of resources	907.5	841.3	623.8
Total liabilities and deferred inflows of resources	5,885.8	5,779.0	5,195.5
Net position			
Net investment in capital assets, including State Water Project costs	5,986.2	5,799.9	5,633.4
Restricted	331.1	378.4	380.0
Unrestricted	532.8	710.0	1,447.9
Total net position	\$ 6,850.1	\$ 6,888.3	\$ 7,461.3

Capital Assets, Net

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

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. At December 31, 2016, net capital assets totaled \$10.5 billion, or 82.8 percent, of total assets and deferred outflows of resources, and were \$161.5 million higher than the prior year. The increase was primarily due to a \$175.9 million Board approved land purchase in the Delta Wetlands in July 2016. Additional increases included Metropolitan's continued expenditures on the capital investment plan of \$239.8 million and net capital payments for participation rights in the State Water Project and other facilities of \$132.3 million. These increases were offset by depreciation and amortization of \$386.5 million. See the capital assets and debt administration section for additional information.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. At December 31, 2015, net capital assets totaled \$10.4 billion, or 82.0 percent, of total assets and deferred outflows of resources, and were \$219.6 million higher than the prior year. The increase was primarily due to a \$255.9 million Board approved land purchase in the Palo Verde Irrigation District (PVID) in July 2015. Additional increases included Metropolitan's continued expenditures on the capital investment plan of \$227.9 million and net capital payments for participation rights in the State Water Project and other facilities of \$106.0 million. These increases were offset by depreciation and amortization of \$370.2 million. See the capital assets and debt administration section for additional information.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**(CONTINUED)**

December 31, 2016 and 2015

(Unaudited)

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 related to the net pension liability, deferred outflows for effective interest rate swaps, and cash and investments.

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. At December 31, 2016, other assets and deferred outflows totaled \$2.2 billion and were \$92.9 million lower than the prior year. Included in the decrease were \$39.6 million of lower water inventory primarily due to the fact that the \$44.4 million water purchase from Southern Nevada Water Authority (noted below) did not occur in the current year. In addition, deposits, prepaid costs, and other were \$38.0 million lower due to \$30.0 million of lower prepaid water costs or 221.7 TAF.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. At December 31, 2015, other assets and deferred outflows totaled \$2.3 billion and were \$209.1 million lower than the prior year. Included in the decrease were \$221.6 million of lower cash and investments primarily due to \$255.9 million of land purchase and \$59.7 million of lower prepaid water costs due to a reduction in water storage of 207.5 thousand acre-feet (TAF). These decreases were offset by \$46.3 million of higher water inventory due to the purchase of 150 TAF of water from Southern Nevada Water Authority for \$44.4 million. In addition, the implementation of GASB 68 and GASB 71 resulted in \$34.3 million of deferred outflows for pension contribution.

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.

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. At December 31, 2016, long-term liabilities, net of current portion, totaled \$5.0 billion and were \$40.6 million higher than the prior year. The increase included \$72.8 million more of net pension liability due to the decrease of actual pension plan investment earnings as compared to the prior year. This increase was offset by \$22.5 million reduction in long-term debt, net of current portion. This decrease included scheduled principal payments of \$146.1 million and a \$49.2 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded offset by \$175.0 million of new debt issued. The fair value of interest rate swaps liability account represents a negative market value which improved by \$12.0 million due to rising interest rates. See the long-term debt section for additional information.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. At December 31, 2015, long-term liabilities, net of current portion, totaled \$4.9 billion and were \$366.0 million higher than the prior year. Included in the increase were \$406.8 million of net pension liability related to the implementation of GASB 68 and \$208.3 million of new debt issued in December 2015. Partially offsetting these increases were \$151.3 million of scheduled principal payments and a \$5.3 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded. In addition, \$87.4 million of the 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds was classified as current liability as the Revolving Credit Agreement (RCA) that covered the bonds expired on March 31, 2016. See the long-term debt section for additional information.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**(CONTINUED)**

December 31, 2016 and 2015

(Unaudited)

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 related to the net pension liability. Current liabilities include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. At December 31, 2016, current liabilities and deferred inflows of resources totaled \$907.5 million, and were \$66.2 million higher than the prior year primarily due to \$250.0 million of revolving notes issued by Metropolitan in fiscal year 2016. Offsetting this increase was \$100.1 million lower accounts payable and accrued expenses, which included \$73.4 million of lower State Water Project costs primarily due to \$55.0 million of Flex Storage pay down and \$13.2 million less of conservation credit expenses as the \$450.0 million budget in fiscal year 2015 is spent down (see Operating Expenses). In addition, pension related deferred inflows of resources was \$69.1 million lower due to \$82.3 million lower actual pension plan investment earnings as compared to prior year partially offset by \$24.1 million of deferred pension expenses due to change in assumptions.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. At December 31, 2015, current liabilities and deferred inflows of resources totaled \$841.3 million, and were \$217.5 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 \$87.4 million as the RCA that covered the bonds has expired (see Long-term liabilities, net of current portion section for additional information).

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.

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. At December 31, 2016, net investment in capital assets, including State Water Project costs totaled \$6.0 billion and was \$186.3 million more than the prior year. This increase included \$161.5 million net increase in capital assets and \$30.0 million net decrease in outstanding debt. See discussions of these items in the capital assets and long-term debt sections.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. At December 31, 2015, net investment in capital assets, including State Water Project costs totaled \$5.8 billion and was \$166.5 million more than the prior year. This increase included \$219.6 million net increase in capital assets offset by \$58.3 million net increase in outstanding debt. See discussions of these items in the capital assets and long-term debt sections.

Restricted Net Position

Restricted net position includes amounts restricted for debt service payments and operating expenses, both of which are required by bond covenants.

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. At December 31, 2016, restricted net position totaled \$331.1 million which was \$47.3 million lower than fiscal year 2016. The decrease included \$78.4 million of lower restricted for debt service offset by \$31.1 million higher restricted for operating expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. At December 31, 2015, restricted net position totaled \$378.4 million which was \$1.6 million lower than fiscal year 2015.

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.

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. Unrestricted net position of \$532.8 million decreased \$177.2 million from the prior year which, included \$186.3 million net investment in capital assets and the twelve months ended December 31, 2016 net loss before contributions of \$40.7 million partially offset by \$47.4 million of lower restricted net position requirements for debt service and operating expenses.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. Unrestricted net position of \$710.0 million decreased \$737.9 million from the prior year. The decrease included \$406.8 million of net pension liability and \$109.2 million of deferred inflows of resources resulting from Metropolitan’s implementation of GASB 68 in fiscal year 2015. In addition, Metropolitan invested a net of \$166.5 million in capital assets and net loss before contributions for the twelve months ended December 31, 2015 totaled \$84.3 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

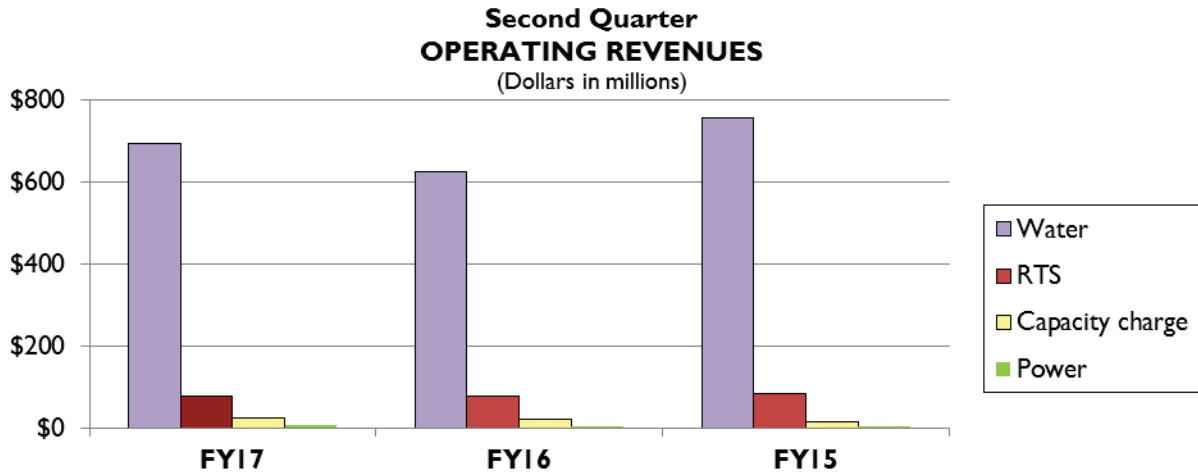
CHANGES IN NET POSITION*Condensed Schedule of Revenues, Expenses, and Changes in Net Position*

(Dollars in millions)	Six Months Ended December 31,		
	2016	2015	2014
Water sales	\$ 694.7	\$ 624.7	\$ 754.5
Readiness-to-serve charges	76.5	79.0	83.0
Capacity charge	22.9	21.8	15.6
Power sales	8.4	3.8	2.2
Operating revenues	802.5	729.3	855.3
Taxes, net	56.3	52.3	49.9
Investment income (loss)	(3.3)	3.4	(11.2)
Other	2.4	6.8	3.3
Nonoperating revenues	55.4	62.5	42.0
Total revenues	857.9	791.8	897.3
Power and water costs	(224.8)	(274.0)	(198.1)
Operations and maintenance	(251.7)	(311.9)	(240.9)
Depreciation and amortization	(147.3)	(134.0)	(128.3)
Operating expenses	(623.8)	(719.9)	(567.3)
Bond interest, net of amount capitalized	(65.7)	(62.1)	(66.7)
Other	(2.2)	(3.1)	(3.0)
Nonoperating expenses	(67.9)	(65.2)	(69.7)
Total expenses	(691.7)	(785.1)	(637.0)
Income before contributions	166.2	6.7	260.3
Capital contributions	0.1	—	—
Changes in net position	166.3	6.7	260.3
Net position, at June 30,	6,683.8	6,881.6	7,201.0
Net position, at December 31,	\$ 6,850.1	\$ 6,888.3	\$ 7,461.3

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 December 31, 2016 and 2015
 (Unaudited)

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

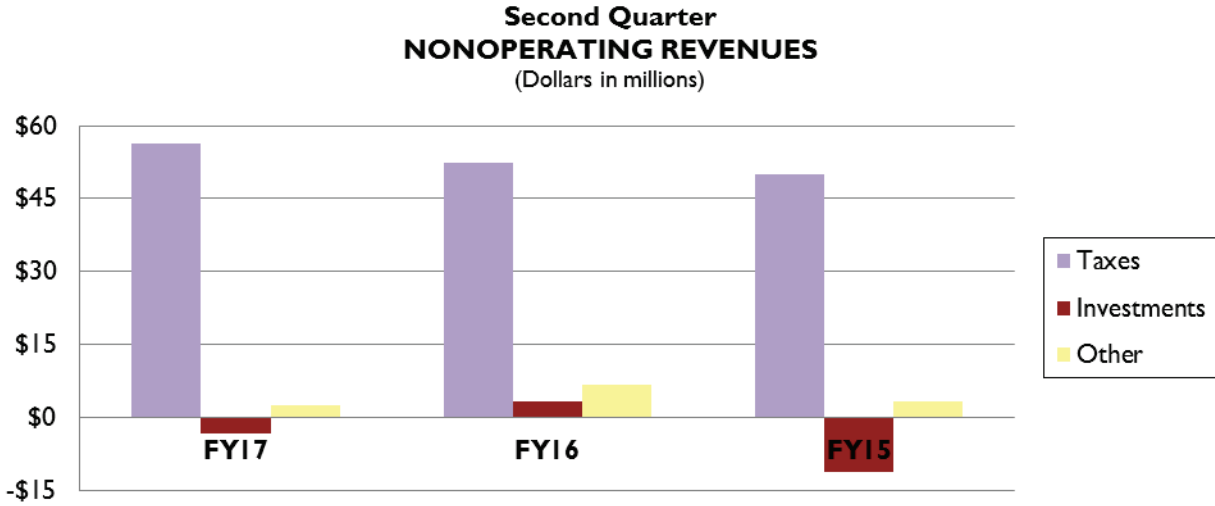
Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. For the six months ended December 31, 2016 operating revenues were \$802.5 million or \$73.2 million more than the prior year primarily due to \$70.0 million of higher water sales, of which \$61.5 million related to 85.7 TAF of higher volumes sold and \$8.5 million from higher rates.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. For the six months ended December 31, 2015, operating revenues were \$729.3 million or \$126.0 million less than the prior year primarily due to \$129.8 million of lower water sales, of which \$119.7 million related to 164.1 TAF of lower volumes sold and \$10.1 million from lower 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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 December 31, 2016 and 2015
 (Unaudited)

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.



Analytical Review of Nonoperating Revenues

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. Nonoperating revenues for the six months ended December 31, 2016 totaled \$55.4 million and were \$7.1 million lower than the prior year primarily due to \$7.5 million of unfavorable change in fair value of investments.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. Nonoperating revenues for the six months ended December 31, 2015 totaled \$62.5 million and were \$20.5 million higher than the prior year. Investment income increased \$14.6 million primarily due to the fact that the \$18.7 million loss on swap termination did not occur in fiscal year 2016.

MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED

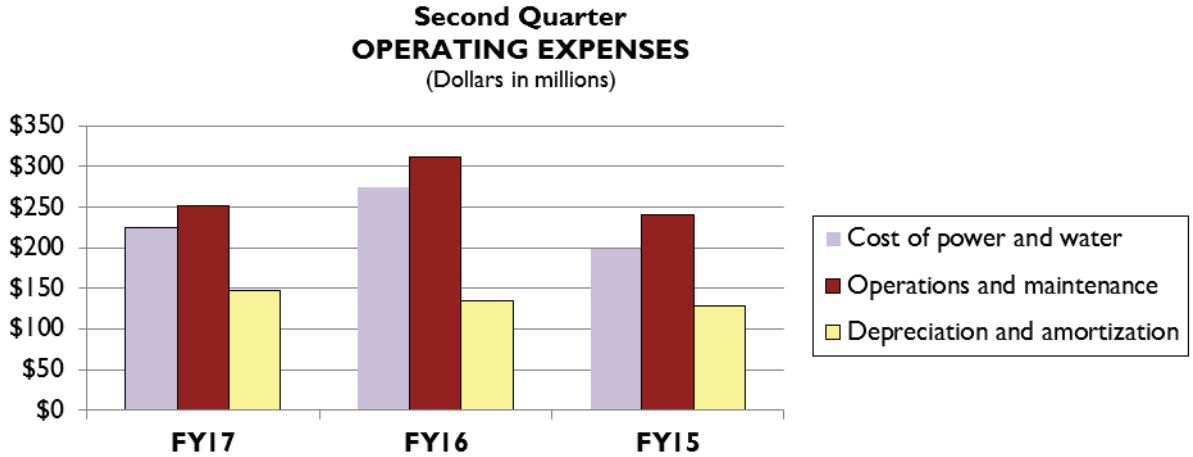
(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

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

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. For the six months ended December 31, 2016 operating expenses of \$623.8 million were \$96.1 million lower than prior year. The decrease included \$60.2 million of lower operations and maintenance costs primarily due to \$62.3 million lower conservation credits expenses as the \$450.0 million budget in fiscal year 2015 for conservation spending is spent down. In addition, power and water costs decreased \$49.2 million primarily due to \$37.0 million higher credit related to the State Water Project in fiscal year 2017.

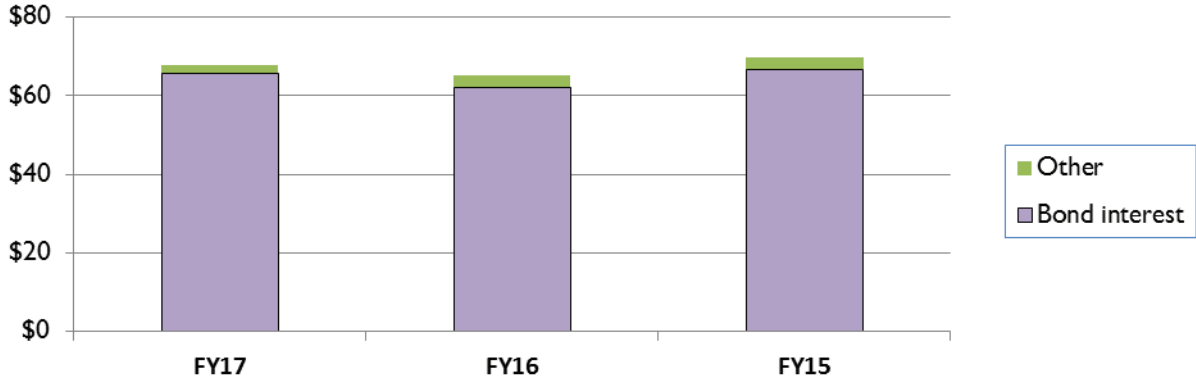
Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. For the six months ended December 31, 2015, operating expenses of \$719.9 million were \$152.6 million higher than prior year. The increase included \$75.9 million of power and water costs primarily due to \$50.2 million of higher State Water Project OMP&R costs related to the Fish Restoration Program Agreement, biological opinions, and increased labor costs. In addition, operations and maintenance costs increased \$71.0 million primarily due to \$68.9 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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 December 31, 2016 and 2015
 (Unaudited)

Nonoperating Expenses

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

**Second Quarter
 NONOPERATING EXPENSES**
 (Dollars in millions)



Analytical Review of Nonoperating Expenses

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. For the six months ended December 31, 2016 nonoperating expenses of \$67.9 million were \$2.7 million higher than the prior year primarily due to a decrease in capitalized interest on assets constructed.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. For the six months ended December 31, 2015, nonoperating expenses of \$65.2 million were \$4.5 million lower than the prior year. The decrease was primarily due to a \$3.9 million decrease in interest expense on bonds related to bond refunding transactions to take advantage of lower interest rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

(CONTINUED)

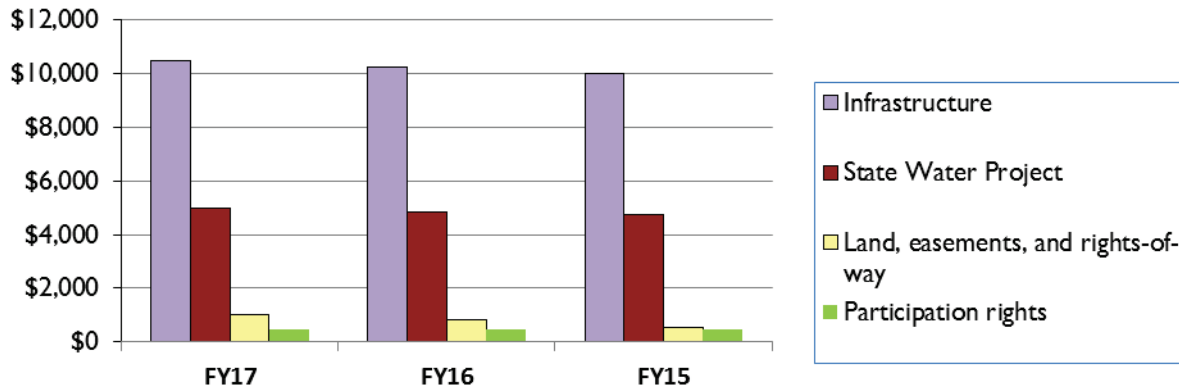
December 31, 2016 and 2015

(Unaudited)

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.

**Second Quarter
GROSS CAPITAL ASSETS**
(Dollars in millions)



Schedule of Capital Assets

(Dollars in millions)	December 31,		
	2016	2015	2014
Land, easements and rights-of-way	\$ 1,008.5	\$ 814.2	\$ 557.7
Construction in progress	911.1	1,759.7	1,743.6
Parker power plant and dam	13.0	13.0	13.0
Power recovery plants	180.3	178.7	178.7
Other dams and reservoirs	1,546.3	1,541.7	1,537.5
Water transportation facilities	3,708.9	3,504.0	3,376.2
Pumping plants and facilities	293.6	240.7	240.5
Treatment plants and facilities	2,924.1	2,138.6	2,070.1
Buildings	136.1	136.1	136.1
Other plant assets	701.7	681.2	670.7
Pre-operating expenses original aqueduct	44.6	44.6	44.6
Participation rights in State Water Project	4,978.9	4,844.4	4,744.2
Participation rights in other facilities	459.7	461.9	456.1
Gross capital assets	16,906.8	16,358.8	15,769.0
Less accumulated depreciation and amortization	(6,358.9)	(5,972.4)	(5,602.2)
Capital assets, net	\$ 10,547.9	\$ 10,386.4	\$ 10,166.8
Net increase from prior year	\$ 161.5	\$ 219.6	\$ 52.0
Percent change	1.6%	2.2%	0.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. Net capital assets totaled approximately \$10.5 billion and increased \$161.5 million over the prior year. This increase included \$175.9 million Delta Wetlands land purchase, \$239.8 million of new construction activity, and a net increase of \$132.3 million in participation rights in State Water Project and other facilities. The increase was offset by depreciation and amortization of \$386.5 million.

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

- \$73.5 million for the improvements in infrastructure reliability at the treatment plants.
- \$42.4 million for the distribution system's rehabilitation program.
- \$30.6 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.
- \$18.4 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.
- \$18.1 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to 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.

Metropolitan's fiscal year 2017 capital budget includes plans to spend \$246.0 million principally for the water treatment plants improvements program, the distribution system and rehabilitation projects, the Colorado River Aqueduct reliability and containment programs, the water quality/oxidation retrofit program, and the supply reliability and system expansion program.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. Net capital assets totaled approximately \$10.4 billion and increased \$219.6 million over the prior year. This increase included \$255.9 million PVID land purchase, \$227.9 million of new construction activity and a net increase of \$106.0 million in participation rights in State Water Project and other facilities. The increase was offset by depreciation and amortization of \$370.2 million.

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

- \$49.5 million for the improvements in infrastructure reliability at the treatment plants.
- \$45.7 million for the oxidation retrofit program at the filtration plants.
- \$27.5 million for the distribution system's reliability programs.
- \$19.6 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.
- \$17.4 million for chlorine containment and handling facilities program.
- \$10.5 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**(CONTINUED)**

December 31, 2016 and 2015

(Unaudited)

LONG-TERM DEBT*Schedule of Long-term Debt, Including Current Portion*

(Dollars in millions)	December 31,		
	2016	2015	2014
General obligation bonds (a)	\$ 92.9	\$ 110.4	\$ 127.5
Revenue bonds (a)	4,235.2	4,238.0	4,169.2
State revolving loan	8.6	10.2	11.2
Other, net (b)	214.9	223.0	215.4
	\$ 4,551.6	\$ 4,581.6	\$ 4,523.3
Increase (decrease) from prior year	\$ (30.0)	\$ 58.3	\$ (183.4)
Percent change	(0.7%)	1.3%	(3.9%)

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

Second Quarter Fiscal 2017 Compared to Second Quarter Fiscal 2016. At December 31, 2016, there was \$4.6 billion of outstanding bonds and other long-term obligations, a net decrease of \$30.0 million or 0.7 percent from the prior year. The decrease included scheduled principal payments of \$146.1 million and a \$49.2 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded. In addition, scheduled amortization of bond premiums and discounts was \$8.2 million lower. These decreases were offset by \$175.0 million of new debt issued.

Second Quarter Fiscal 2016 Compared to Second Quarter Fiscal 2015. At December 31, 2015, there was \$4.6 billion of outstanding bonds and other long-term obligations, a net increase of \$58.3 million or 1.3 percent from the prior year. The increase was due to the issuance of \$208.3 million in new debt partially offset by scheduled principal payments of \$151.3 million and principal reduction related to refunding transactions of \$5.3 million.

CREDIT RATINGS

Metropolitan's credit ratings at December 31, 2016, 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+

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

CURRENTLY KNOWN FACTS

Oroville Dam, the earthfill embankment dam on the Feather River which impounds Lake Oroville, is operated by DWR as a facility of the State Water Project. On February 7, 2017, the main flood control spillway at Oroville Dam, a gated and concrete lined facility, experienced significant damage as DWR increased releases to 55,000 cubic feet per second to manage higher inflows driven by continued precipitation in the Feather River basin. Subsequently, DWR halted releases at the main spillway to inspect the damage and conduct flow tests. After testing, the main spillway was returned to service on February 8 at a reduced flow rate to offset inflows into Lake Oroville. On February 11, the water elevation in Lake Oroville reached 901 feet, leading water to flow over the emergency spillway structure, an ungated, 1,730 foot long concrete weir located adjacent to and north of the main flood control spillway structure. Releases from the emergency spillway flow uncontrolled down an earthen hillside to the Feather River. On February 12, erosion began to progress up the right side of the emergency spillway. Concerns about the erosion at the emergency spillway prompted DWR to increase releases through the damaged main spillway and led the Butte County Sheriff to evacuate downstream communities for two days to ensure the safety of the residents. As of February 14, water levels in Lake Oroville were 13 feet below the crest of the emergency spillway and the mandatory evacuation order was lifted. DWR has begun repairs to the erosion areas below the emergency spillway. As of February 15, 2017, the cause of the damage to the main spillway was unknown.

The State has requested federal emergency funding to help offset costs related to the response efforts. The Federal Emergency Management Agency has approved the State's request for federal assistance.

Following the rainy season, the spillways will be repaired on a more permanent basis in preparation for the following winter. DWR's initial assessments indicate costs may range from \$100-200 million. These estimates are subject to revision as more detailed information becomes known. Metropolitan is unable to assess at this time what costs, if any, it will incur as a State Water Contractor, associated with the spillway repairs.

State Water Project water allocations to State Water Contractors for calendar year 2017 are currently estimated to be 60 percent of contracted amounts. In spite of the damage to the main spillway and the unknowns associated with DWR's corresponding repair plan, the SWP allocation is expected to increase from the current estimate of 60 percent. If realized, this would result in an allocation that is higher than average, and likely higher than any allocation since 2011. Nonetheless, future water supplies will be primarily dependent upon hydrology.

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STATEMENTS OF NET POSITION

(Dollars in thousands)	December 31,	
	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
	(Unaudited)	
Current Assets:		
Cash and investments, at fair value (Notes 1b and 2):		
Unrestricted (cost: \$701,269 and \$508,759 for 2016 and 2015, respectively)	\$ 700,857	\$ 508,907
Restricted (cost: \$341,739 and \$452,400 for 2016 and 2015, respectively)	341,538	452,533
Total cash and investments	<u>1,042,395</u>	<u>961,440</u>
Receivables:		
Water sales	212,412	209,800
Interest on investments	4,053	3,745
Other, net (Note 1e)	104,523	111,286
Total receivables	<u>320,988</u>	<u>324,831</u>
Inventories (Note 1f)	76,612	115,956
Deposits, prepaid costs, and other (Note 8)	70,034	72,619
Total current assets	<u>1,510,029</u>	<u>1,474,846</u>
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1b and 2):		
Unrestricted (cost: \$183,203 and \$245,682 for 2016 and 2015, respectively)	183,096	245,754
Restricted (cost: \$138,865 and \$150,119 for 2016 and 2015, respectively)	142,884	156,229
Total cash and investments	<u>325,980</u>	<u>401,983</u>
Capital assets:		
Plant and equipment - non depreciable (Notes 1g and 6g)	1,919,562	2,573,897
Plant and equipment - depreciable (Notes 1g and 6g)	9,548,664	8,478,562
Participation rights in State Water Project (Notes 1h and 7)	4,978,908	4,844,399
Participation rights in other facilities (Note 1h)	459,709	461,909
Total capital assets	<u>16,906,843</u>	<u>16,358,767</u>
Less accumulated depreciation and amortization	<u>(6,358,895)</u>	<u>(5,972,379)</u>
Total capital assets, net	<u>10,547,948</u>	<u>10,386,388</u>
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 8)	197,639	233,065
Total other assets	<u>197,639</u>	<u>233,065</u>
Total noncurrent assets	<u>11,071,567</u>	<u>11,021,436</u>
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1p)	64,049	79,659
Loss on swap terminations (Note 1p)	33,821	37,024
Pension related (Note 1q)	48,475	34,306
Effective swaps (Note 1p)	7,996	20,012
Total deferred outflows of resources	<u>154,341</u>	<u>171,001</u>
Total Assets and Deferred Outflows of Resources	\$ 12,735,937	\$ 12,667,283

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

(Dollars in thousands)	December 31,	
	2016	2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	(Unaudited)	
Current Liabilities:		
Accounts payable and accrued expenses (Note 1i)	\$ 45,063	\$ 145,153
Revolving notes (Note 3a)	250,000	—
Current portion of long-term debt	325,338	332,794
Current portion of obligations for off-aqueduct power facilities (Note 6f)	3,265	3,276
Current portion of accrued compensated absences (Note 1j)	19,600	22,100
Current portion of customer deposits and trust funds	10,389	10,500
Current portion of workers' compensation and third party claims (Note 11)	9,500	8,400
Current portion of other long-term obligations	125,744	130,798
Accrued bond interest	76,816	77,181
Matured bonds and coupons not presented for payment	1,768	1,835
Total current liabilities	867,483	732,037
Noncurrent Liabilities:		
Long-term debt, net of current portion	4,226,281	4,248,812
Obligations for off-aqueduct power facilities, net of current portion (Note 6f)	9,447	13,079
Accrued compensated absences, net of current portion (Note 1j)	26,709	23,890
Customer deposits and trust funds, net of current portion	87,934	80,750
Net pension liability (Note 4)	479,555	406,794
Postemployment benefits other than pensions (Note 5)	61,780	64,987
Workers' compensation and third party claims, net of current portion (Note 11)	11,504	12,376
Fair value of interest rate swaps (Note 3f)	72,823	84,838
Other long-term obligations, net of current portion	2,229	2,225
Total noncurrent liabilities	4,978,262	4,937,751
Total liabilities	5,845,745	5,669,788
Commitments and Contingencies (Note 6)	—	—
Deferred Inflows of Resources:		
Pension related (Note 1q)	40,121	109,220
Net Position (Note 10):		
Net investment in capital assets, including State Water Project costs	5,986,208	5,799,883
Restricted for:		
Debt service	147,854	226,349
Other	183,184	152,047
Unrestricted	532,825	709,996
Total net position	6,850,071	6,888,275
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 12,735,937	\$ 12,667,283

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**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

(Dollars in thousands)	Six Months Ended	
	December 31,	
	2016	2015
Operating Revenues (Note 1c):	(Unaudited)	
Water sales	\$ 694,686	\$ 624,661
Readiness-to-serve charges	76,500	78,994
Capacity charge	22,868	21,836
Power sales	8,429	3,849
Total operating revenues	802,483	729,340
Operating Expenses:		
Power and water costs	224,755	274,045
Operations and maintenance	251,674	311,938
Total operating expenses	476,429	585,983
Operating income before depreciation and amortization	326,054	143,357
Less depreciation and amortization	(147,281)	(134,014)
Operating income	178,773	9,343
Nonoperating Revenues (Expenses) (Note 1m):		
Taxes, net (Note 1d)	56,272	52,254
Bond interest, net of \$7,900 and \$11,700 of interest capitalized fiscal year-to-date 2017 and 2016, respectively (Note 1g)	(65,728)	(62,085)
Investment income (loss), net	(3,257)	3,423
Other, net	152	3,720
Total nonoperating expenses, net	(12,561)	(2,688)
Income Before Contributions	166,212	6,655
Capital contributions (Note 1l)	77	—
Changes in net position	166,289	6,655
Net position, at June 30, 2016 and 2015	6,683,782	6,881,620
Net position, at December 31, 2016 and 2015	\$ 6,850,071	\$ 6,888,275

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Six Months Ended	
	December 31,	
	2016	2015
Cash Flows from Operating Activities:	(Unaudited)	
Cash received from water sales	\$ 660,756	\$ 599,986
Cash received from readiness-to-serve charges	69,335	69,716
Cash received from capacity charge	29,329	21,826
Cash received from power sales	7,654	3,712
Cash received from other exchange transactions	39,629	38,272
Cash paid for operations and maintenance expenses	(162,328)	(247,133)
Cash paid to employees for services	(126,579)	(127,890)
Cash paid for power and water costs	(295,493)	(308,637)
Other cash flows for operating activities	(800)	(3,601)
Net cash provided by operating activities	221,503	46,251
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	3,112	5,942
Net cash provided by noncapital financing activities	3,112	5,942
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(281,887)	(362,939)
Payments for State Water Project costs	(76,176)	(50,076)
Proceeds from short and long-term debt	220,785	250,000
Payments for bond issuance costs	(1,663)	(823)
Principal paid on long-term debt	(169,970)	(122,060)
Interest paid on long-term debt	(83,122)	(85,563)
Payments for other long-term obligations	(3,214)	(2,744)
Proceeds from tax levy	48,700	44,064
Transfer to/from escrow trust accounts	(2,080)	12,621
Collection of notes receivable - land sales	—	139
Net cash used by capital and related financing activities	(348,627)	(317,381)
Cash Flows from Investing Activities:		
Purchase of investment securities	(5,613,917)	(5,845,478)
Proceeds from sales and maturities of investment securities	5,729,563	6,124,580
Investment income	8,471	7,344
Net cash provided by investing activities	124,117	286,446
Net change in cash	105	21,258
Cash at July 1, 2016 and 2015	39	6,172
Cash at December 31, 2016 and 2015 (Note 1b)	\$ 144	\$ 27,430

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Six Months Ended	
	December 31,	
	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	(Unaudited)	
Operating Income	\$ 178,773	\$ 9,343
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and amortization expense	147,281	134,014
Decrease in accounts receivable	1,131	6,600
Decrease (Increase) in inventories	15,933	(46,913)
Increase in deposits, prepaid costs, and other	(69,021)	(61,304)
Decrease in accounts payable and accrued expenses	(84,377)	(38,854)
Increase in other items	31,782	43,365
Total Adjustments	<u>42,729</u>	<u>36,908</u>
Net cash provided by operating activities	\$ 221,502	\$ 46,251
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	\$ 108,721	\$ 194,920
Debt defeased through escrow trust fund with refunding debt	\$ (62,465)	\$ (188,221)
RECONCILIATION OF CASH AND INVESTMENTS TO CASH		
Unrestricted cash and investments (at December 31, 2016 and 2015 include \$144 and \$27,430 of cash, respectively)	\$ 883,953	\$ 754,661
Restricted cash and investments	484,422	608,762
Total cash and investments, at fair value	<u>1,368,375</u>	<u>1,363,423</u>
Less: carrying value of investments	<u>(1,368,231)</u>	<u>(1,335,993)</u>
Total Cash (Note 1b)	\$ 144	\$ 27,430

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NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2016 and 2015

(Unaudited)

I. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Reporting Entity**

The Metropolitan Water District of Southern California (Metropolitan), a special district of the State of California, was organized in 1928 by vote of the electorates of several Southern California cities following adoption of the Metropolitan Water District Act (Act) by the California Legislature. Metropolitan's primary purposes under the Act are to develop, store and distribute water, at wholesale, to its member public agencies for domestic and municipal purposes. Surplus water is sold for other beneficial uses, including agricultural use. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura. There are 26 independent member agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan has no financial accountability for its member agencies. Metropolitan is governed by a 38-member Board of Directors (Board) comprised of representatives of the member agencies. Representation and voting rights are based on assessed valuations of property. 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 six months ended December 31, 2016 and 2015. 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.

Certain amounts reported in fiscal year 2016 have been reclassified to conform to the fiscal year 2017 presentation. Such reclassification had no effect on Metropolitan's net position or change in net position.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

(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 participation in the State Water Project system, with an entitlement to water service from the Project (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 2016 and 2017, the Board suspended the tax rate limitations and maintained the fiscal year 2013 tax rate for fiscal years 2016 and 2017 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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

(f) Inventories

Metropolitan's inventories are valued based on a moving-average cost. Expenses are recorded when inventories are used. Components of inventories at December 31, 2016 and 2015 were as follows:

(Dollars in thousands)	December 31,	
	2016	2015
Water in storage	\$ 65,857	\$ 105,486
Operating supplies	10,755	10,470
Total inventories	\$ 76,612	\$ 115,956

(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 buildings, storage, and distribution facilities, 10 to 50 years for treatment plants and hydroelectric power recovery facilities, and 10 to 80 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.)

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

(i) Disaggregation of Payable Balances

Accounts payable and accrued expenses at December 31, 2016 and 2015 were as follows:

(Dollars in thousands)	December 31,	
	2016	2015
Department of Water Resources (State Water Project):		
Capital, operating, maintenance, power, replacement, and variable power	\$ 14,304	\$ 87,654
Vendors	21,118	30,035
Accrued power costs	3,252	3,142
Accrued salaries	—	4,728
Conservation credits	6,389	19,594
Total accounts payable and accrued expenses	\$ 45,063	\$ 145,153

(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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

(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 \$532.8 million and \$710.0 million at December 31, 2016 and 2015, 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 December 31, 2016 and 2015, respectively, were \$64.0 million and \$79.7 million, respectively. The deferred outflows from losses on swap terminations resulting in debt defeasance at December 31, 2016 and 2015, respectively, were \$33.8 million and \$37.0 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 \$8.0 million and \$20.0 million at December 31, 2016 and 2015, 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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

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.

(r) Fair Value Measurement and Implementation of Accounting Principle

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72) requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. Metropolitan has been reporting its investments and liabilities at fair value using market approach and cost approach therefore, there are no significant changes to its reporting resulting from the implementation of GASB 72 in fiscal year 2016.

Additionally, GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. This hierarchy has three levels which are: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date; Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security. Metropolitan implemented the fair value hierarchy to its assets and liabilities, which are presented in Note 2.

(s) New Accounting Pronouncements

Metropolitan is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements that will be implemented in a future fiscal year:

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- OPEB Measurements by Agent Multiple-Employer Plans*. GASB 75 is effective for Metropolitan's fiscal year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 requires the presentation of covered payroll, which is payroll on which contributions to a pension plan are based, and ratios that use that measure in required supplementary information instead of covered-employee payroll. In addition, GASB 82 clarifies that a deviation is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. GASB 82 further clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). GASB 82 is effective for Metropolitan's fiscal year ending June 30, 2017.

The following pronouncements were issued by GASB but were determined to not have an impact on Metropolitan's financial statements:

- GASB 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 Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*
- GASB Statement No. 77, *Tax Abatement Disclosure.*
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans.*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.*
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.*
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements.*
- GASB Statement No. 83, *Certain Asset Retirement Obligations.*
- GASB Statement No. 84, *Fiduciary Activities.*

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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

(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 December 31, 2016 and 2015, Metropolitan's cash balances with financial institutions were \$139,000 and \$27,425,000 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 December 31, 2016 and 2015, Metropolitan had the following investments at fair value:

(Dollars in thousands)	December 31,	
	2016	2015
U.S. Treasury securities	\$ 342,211	\$ 300,279
U.S. Guarantees – GNMA's	4	6
Federal agency securities	141,213	196,482
Bankers' acceptances	103	—
Prime commercial paper	238,595	240,156
Medium-term corporate notes	111,417	159,872
Negotiable certificates of deposit	359,341	273,301
Shares of beneficial interest	496	832
Asset and mortgaged-backed securities	62,866	66,985
Municipal bonds	46,985	48,080
Local Agency Investment Fund	65,000	50,000
Total investments	\$ 1,368,231	\$ 1,335,993

Metropolitan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Metropolitan does not value any of its investments using level 3 inputs.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

The following is the summary of the fair value hierarchy of the fair value of investments of Metropolitan as of December 31, 2016 and 2015:

	Fair Value Measurement Using										
		Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)	12/31/16					12/31/15					
Investments by fair value level:											
U.S. Treasury securities	\$ 342,211	\$ 342,211	\$ —	\$ —	\$ —	\$ 300,279	\$ 300,279	\$ —	\$ —	\$ —	\$ —
U.S. Guarantees – GNMA's	4	4	—	—	—	6	6	—	—	—	—
Federal agency securities	96,247	96,247	—	—	—	196,482	196,482	—	—	—	—
Bankers' acceptances	103	—	103	—	—	—	—	—	—	—	—
Prime commercial paper	238,595	102,079	136,516	—	—	240,156	100,482	139,674	—	—	—
Medium-term corporate notes	111,417	111,417	—	—	—	159,872	159,872	—	—	—	—
Negotiable certificates of deposit	359,341	359,341	—	—	—	273,301	273,301	—	—	—	—
Shares of beneficial interest ⁽¹⁾	496	—	—	—	496	832	—	—	—	832	—
Asset and mortgaged-backed securities	62,866	62,866	—	—	—	66,985	66,985	—	—	—	—
Municipal bonds	46,985	46,985	—	—	—	48,080	48,080	—	—	—	—
Total investments by fair value level	\$ 1,258,265	\$ 1,121,150	\$ 136,619	\$ 496	\$ —	\$ 1,285,993	\$ 1,145,487	\$ 139,674	\$ —	\$ 832	\$ —
Investments not subject to fair value level:											
Federal agency securities	44,966					—					
Local Agency Investment Fund	65,000					50,000					
Total investments	\$ 1,368,231					\$ 1,335,993					

⁽¹⁾ As of December 31, 2016 and 2015, the balance was invested in BlackRock Treasury Trust (TTTXX) and Dreyfus Treasury & Agency Cash Management (DTVXX), respectively.

Investments classified in Level 1 of the fair value hierarchy, valued \$1.1 billion as of December 31, 2016 and 2015, are valued using quoted prices in active markets.

Prime commercial paper totaling \$136.5 million and \$139.7 million and bankers' acceptance totaling \$103,000 and \$0, as of December 31, 2016 and 2015, respectively, classified in Level 2 of the fair value hierarchy were valued using matrix pricing.

Shares of beneficial interest totaling \$496,000 and \$832,000 as of December 31, 2016 and 2015, respectively, classified in Level 3 of the fair value hierarchy was valued at Fund's share price of \$1.00.

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).

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

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 December 31, 2016 and 2015, the benchmark durations were 0.24 and 0.23, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 0.20. As of December 31, 2016 and 2015, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	December 31,			
	2016		2015	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 112,419	0.59	\$ 73,651	0.95
Federal agency securities	131,851	0.09	182,517	0.13
Bankers' acceptances	103	0.02	—	—
Prime commercial paper	238,340	0.15	240,156	0.10
Medium-term corporate notes	45,003	0.17	100,002	0.16
Negotiable certificates of deposit	359,166	0.22	273,301	0.14
Municipal bonds	16,367	0.31	—	—
Local Agency Investment Fund	65,000	—	50,000	—
Portfolio duration		0.21		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 December 31, 2016 and 2015, the benchmark durations were 2.69 and 2.67, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of December 31, 2016 and 2015, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	December 31,			
	2016		2015	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 208,332	2.78	\$ 205,551	2.86
U.S. Guarantees – GNMA's	4	4.71	6	5.34
Federal agency securities	7,219	5.69	6,739	5.73
Medium-term corporate notes	63,394	2.05	57,770	2.50
Shares of beneficial interest	496	—	832	—
Asset and mortgaged-backed securities	62,866	2.23	66,985	2.07
Portfolio duration		2.61		2.69

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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

As of December 31, 2016 and 2015, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	December 31,			
	2016		2015	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 21,460	4.82	\$ 21,077	5.79
Federal agency securities	2,143	0.97	7,226	1.30
Prime commercial paper	255	0.19	—	—
Negotiable certificates of deposit	175	0.14	—	—
Medium-term corporate notes	3,020	0.16	2,100	0.16
Municipal bonds	30,618	5.13	48,080	6.87
Weighted average duration		4.56		5.89

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 & 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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

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

At December 31, 2016 and 2015, Metropolitan’s portfolio was invested in the following securities by rating:

(Dollars in thousands)	Rating	December 31,	
		2016 Fair value	2015 Fair value
U.S. Treasury securities	AAA ⁽¹⁾	\$ 342,211	\$ 300,279
U.S. Guarantees – GNMA’s	AAA	4	6
Federal agency securities	AAA ⁽¹⁾	141,213	196,482
Shares of beneficial interest	AAA	496	832
Asset and mortgaged-backed securities	AAA	62,866	66,985
Medium-term corporate notes	A ⁽²⁾⁽⁴⁾	111,417	159,872
Prime commercial paper	A1/P1 ⁽²⁾	238,595	240,156
Negotiable certificates of deposit	F1 ⁽²⁾	359,341	273,301
Bankers’ acceptances	F1 ⁽²⁾	103	—
Municipal bonds	A ⁽²⁾	46,985	48,080
Local Agency Investment Fund	⁽³⁾	65,000	50,000
Total portfolio		\$ 1,368,231	\$ 1,335,993

(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.

(4) December 31, 2015, included Goldman Sachs and Morgan Stanley Corporate Notes with book values of \$9.547 million and \$0.501 million and fair values of \$9.504 million and \$0.500 million, respectively. Ratings with Moody’s Investor Service and Standard & Poor’s were A3/BBB+, respectively.

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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of December 31, 2016 and 2015:

	Investment Policy Limits	Percent of Portfolio	
		2017	2016
U.S. Treasury securities	100%	25.01 %	22.48 %
U.S. Guarantees – GNMMAs	100%	—	—
Federal agency securities	100%	10.32	14.71
Shares of beneficial interest	20%	0.04	0.06
Asset and mortgaged-backed securities	20%	4.60	5.01
Medium-term corporate notes	30%	8.14	11.97
Prime commercial paper	25%	17.44	17.97
Negotiable certificates of deposit	30%	26.26	20.46
Bankers' acceptances	40%	0.01	—
Municipal bonds	30%	3.43	3.60
Local Agency Investment Fund	N/A	4.75	3.74
Total portfolio		100.00 %	100.00 %

At December 31, 2016 and 2015, 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)	December 31,			
	2016		2015	
Bank of Nova Scotia	\$ 75,055	5.49 %	\$ —	— %
Federal National Mortgage Association ⁽¹⁾	\$ —	— %	\$ 89,582	6.74 %

⁽¹⁾ December 31, 2015 was previously reported using Book Value.

Custodial credit risk. At December 31, 2016 and 2015, 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 \$65.0 million and \$50.0 million in deposits in the California State managed LAIF as of December 31, 2016 and 2015, respectively.

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

The total amount invested by all public agencies in LAIF as of December 31, 2016 and 2015 was \$21.6 billion and \$20.3 billion, respectively. At December 31, 2016 and 2015, the PMIA portfolio balance was \$73.7 billion and \$65.6 billion, respectively, of which, 1.62 percent and 1.40 percent were invested in medium-term and short-term notes and asset-backed securities, respectively. The average maturity of LAIF investments as December 31, 2016 and 2015 was 171 days and 179 days, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

(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 December 31, 2016 and 2015.

(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 \$4.552 billion and \$4.582 billion at December 31, 2016 and 2015, respectively, represents less than one percent of the June 30, 2016 and 2015 total taxable assessed valuation of \$2,583 billion and \$2,451 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 six months ended December 31, 2016 and 2015, 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).

In April 2016, Metropolitan entered into a noteholder's agreement with RBC Municipal Products, LLC (RBC) for the purchase by RBC and sale by Metropolitan of Metropolitan's Index Notes, Series 2016 (RBC Facility). Also in April 2016, Metropolitan entered into a note purchase and continuing covenant agreement with U.S. Bank National Association (US Bank), for the purchase by US Bank and sale by Metropolitan of Metropolitan's Flexible Rate Revolving Notes, Series 2016 (US Bank Facility, and together with the RBC Facility, the Short-Term Revolving Credit Facilities). Both series of Notes mature on April 6, 2017. Metropolitan is permitted to sell up to \$200 million of notes under each of the Short-Term Revolving Credit Facilities during the term of the respective bank's commitment to purchase notes thereunder, which currently extends to April 5, 2019, for an aggregate amount of available borrowings of \$400 million. Metropolitan may borrow, pay down and re-borrow amounts under each of the Short-Term Revolving Credit Facilities. As of December 31, 2016, Metropolitan has outstanding \$250.0 million

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

of notes under the Short-Term Revolving Credit Facilities (\$125.0 million under the RBC Facility and \$125.0 million under the US Bank Facility).

Each of the Short-Term Revolving Credit Facilities bears interest at a variable rate of interest. The US Bank Facility bears interest at a basis point spread to one-month London interbank offering rate (LIBOR) for taxable borrowings or to 70 percent of one-month LIBOR for tax-exempt borrowings, while the RBC Facility bears interest at a spread to one-month LIBOR for taxable borrowings or to the SIFMA Municipal Swap Index for tax-exempt borrowings. Under the Short-Term Revolving Credit Facilities, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, each bank could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the Short-Term Credit Facilities as Senior Parity Obligations.

(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 December 31, 2016 and 2015. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of \$92.9 million and \$110.4 million in general obligation bonds and general obligation refunding bonds were outstanding at December 31, 2016 and 2015, 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 twelve months ended December 31, 2016 and 2015.

(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 \$4.235 billion and \$4.238 billion of revenue bonds and revenue refunding bonds were outstanding at December 31, 2016 and 2015, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through July 2045 at interest rates ranging from 1.49 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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

On December 19, 2015, Metropolitan issued \$208.3 million of Water Revenue Bonds, 2015 Authorization Series A, at a true interest cost of 3.11 percent, to finance a portion of the capital investment plan. The maturities extend to July 1, 2045 and are subject to mandatory and optional redemption provisions.

On December 20, 2016, Metropolitan entered into a Continuing Covenant Agreement with Bank of America, N.A. (BANA, and the 2016 BANA Agreement), for the purchase by BANA and sale by Metropolitan of Metropolitan's \$175.0 million Subordinate Water Revenue Bonds, 2016 Authorization Series A (the Subordinate 2016 Series A Bonds), which is the first series of bonds issued under the Subordinate Debt Resolution. Proceeds were used to reimburse Metropolitan for the purchase of the Delta Wetlands Properties in the San Francisco Bay\Sacramento-San Joaquin River Delta that was funded from Metropolitan's reserves in July 2016. The Subordinate 2016 Series A Bonds are Index Tender Bonds and bear interest at a variable rate of interest, at a spread to one-month LIBOR. Under the 2016 BANA Agreement, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, BANA could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a Subordinate Lien Parity Obligation.

The Subordinate 2016 Series A Bonds are subject to mandatory tender for purchase on the scheduled mandatory tender date of December 21, 2018, or, if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction.

(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 December 31, 2016 and 2015, the outstanding balance was \$8.6 million and \$10.2 million, respectively.

(f) Interest Rate Swaps

Metropolitan has eight outstanding interest rate swap agreements as of December 31, 2016. These agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates which are Metropolitan's hedging derivative instruments.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

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 December 31, 2016 and 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 December 31, 2016 and 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 December 31, 2016 and 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 December 31, 2016 and 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 December 31, 2016, the interest rates of the variable rate debt associated with these swap transactions range from 0.66 percent to

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

1.16 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 0.31 percent to 0.60 percent. As of December 31, 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 0.44 percent to 0.70 percent.

Termination Risk: Metropolitan may terminate any of the swaps if the other party fails to perform under the terms of the swap agreements. If any of the swaps are terminated, the associated variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, Metropolitan would be liable to the counterparty for a payment equal to the swap's fair value.

Tax Risk: As with other forms of variable rate exposure and the relationship between the taxable and tax-exempt markets, Metropolitan is exposed to tax risk should tax-exempt interest rates on variable rate debt issued in conjunction with the swaps rise faster than taxable interest rates received by the swap counterparties, due particularly to reduced federal or state income tax rates, over the term of the swap agreement.

(h) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from 0.66 percent to 1.16 percent as of December 31, 2016 and 0.01 percent to 0.40 percent as of December 31, 2015. 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, the 2011 SIFMA Index Bonds Series A-1 and A-3, and the 2013 Flexible Index Bond Series E provide bondholders a right to tender bonds to the paying agent every 270 days and 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. Metropolitan has entered into standby bond purchase agreements (SBPA) with several commercial banks to provide liquidity for three and two separate variable rate bond issues in the amount of \$192.5 million and \$151.3 million as of December 31, 2016 and 2015, respectively. In addition, Metropolitan has twelve and eleven series of variable rate bonds in the amounts of \$1.026 billion and \$876.4 million as of December 31, 2016 and 2015, 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, in five or six equal semi-annual installments commencing between six months and 180 days after purchase by the bank.

The \$88.8 million 2000 Series B-3, Water Revenue Bonds and \$103.7 million 2016 Series B-1 and B-2, Special Variable Rate Water Revenue Refunding Bonds, have SBPAs that will expire on April 18, 2017 and September 19, 2019, respectively. According to the provisions of the Paying Agent Agreement for the bonds, the Paying Agent will draw on the SBPA two business days prior to the SBPA expiration to redeem all outstanding bonds. Metropolitan is required to repay the bank in six semi-annual installments commencing six months or 180 days, respectively, after the draw on the facility.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

For eight series of variable rate bonds not supported by SBPA in the amount of \$536.0 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 December 31, 2016 were the \$87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds, the \$38.5 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. At December 31, 2015, the outstanding self-liquidity variable rate bonds that were not supported by a SBPA 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 December 31, 2016 and 2015 had no long-term take out provisions therefore, the entire principal amount of \$314.8 million and \$339.9 million, respectively, may be tendered for purchase upon one week's notice from bondholders. However, on March 21, 2013 and July 1, 2015, Metropolitan entered into separate Revolving Credit Agreements (RCAs), by which Metropolitan may borrow up to \$96.5 million and \$180.0 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 \$134.8 million and \$159.9 million of these self-liquidity bonds have been classified as current liabilities as of December 31, 2016 and 2015, respectively.

4. PENSION PLAN**(a) General Information about the Pension Plan****Plan Description**

All full-time Metropolitan employees are required to participate in Metropolitan's Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual report. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Employees hired prior to January 1, 2013 (Classic members) with five years of total service are eligible to retire at age 50 with statutorily reduced benefits; employees hired after January 1, 2013 (PEPRA members) with at least five years of credited service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for improved non-industrial disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

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 1,598 and 1,528 retired Metropolitan employees at December 31, 2016 and 2015, 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 six months ended December 31, 2016, 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, \$37.9 million and \$31.0 million, as of December 31, 2016 and 2015, respectively.

The December 31, 2016 contribution included a single payment of \$29.3 million for the fiscal year 2017 annual required contribution (ARC) and \$8.6 million of pay-as-you-go funding.

The December 31, 2015 contribution included \$23.1 million single payment for the fiscal year 2016 ARC and \$7.9 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. 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:

	State Water Contract Payments
Year ending June 30:	
2017	\$ 449,842,301
2018	443,092,297
2019	452,968,871
2020	448,787,174
2021	442,790,708

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

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 \$14.3 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 (DSC), a seven member appointed body charged with developing a Delta Plan to support carrying out the Delta Vision, which the DSC completed on September 1, 2013. The 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 2016, priorities include implementation of the Delta Plan, development of a Delta levee improvement prioritization plan, and implementation of Delta Science Program recommendations. In addition, the DSC has adapted the 19 Principles for Water Conveyance in the Delta, Storage Systems, and for the Operation of Both to Achieve the Coequal Goals.

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 final environmental document for the California WaterFix was released on December 22, 2016. This document ultimately concluded that the California WaterFix was the best option for meeting the State's co-equal goals and ensuring water supply reliability and ecosystem restoration while minimizing environmental impact. With the completion of the EIR/EIS, the

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

Biological Opinion is expected to be finalized in Spring 2017, and would pave the way for permitting the proposed project, completion of other necessary agreements, with construction projected to commence in 2018.

(c) Imperial Irrigation District

As of December 31, 2016, Metropolitan had advanced to the Imperial Irrigation District (IID) a total of \$313.2 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 85,000-105,000 acre-feet in 2017 and annually thereafter depending upon the amount used by the Coachella Valley Water District. A total of approximately 86,900 and 101,105 acre-feet was available in calendar years 2016 and 2015, 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 (the Exchange Agreement), pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water 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 price is paid by SDCWA for the Exchange Agreement water delivered by Metropolitan. The price payable by SDCWA is based on 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. On April 13, 2016, SDCWA filed a new lawsuit challenging the rates and charges adopted by Metropolitan on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. The Exchange Agreement requires Metropolitan to pay the disputed portion of the amount paid by SDCWA under the Exchange Agreement and interest thereon to SDCWA, if SDCWA prevails in a dispute over the price payable by SDCWA under the Exchange Agreement. See Claims and Litigation below.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

(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.

(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 2017 through 2021 totals approximately \$1.46 billion. However, due to various uncertainties such as lower than anticipated construction bids, permitting delays, and facility shutdown constraints, anticipated spending is forecasted at \$200.0 million per year for the next 5 years.

Over the next three years, approximately \$735.0 million is budgeted in the capital program, with over \$400.0 million planned for major efforts such as seismic retrofits, mechanical and electrical improvements to components of the Colorado River Aqueduct, seismic retrofits and process component replacements at the Diemer and Weymouth treatment plants, completion of construction and startup of the Weymouth Oxidation Retrofit Program (ORP), Lakeview Pipeline Refurbishment, Palos Verdes Reservoir Floating Cover Replacement, Second Lower Feeder PCCP Refurbishment.

The capital program over the next 3 years also includes \$40.0 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 certain State Water Contract costs to the System Access Rate and the System Power Rate, and thus affect charges for transportation of water, resulting in an 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 adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with the State Water Contract and the Water Stewardship Rate to water supply 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

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

structure and cost of service approach. Nevertheless, to the extent that a final court ruling invalidates Metropolitan's adopted rates, Metropolitan will be obligated to reconsider and modify rates to comply with any final ruling related to Metropolitan's rates. While components of the rate structure and costs may change as a result of any such ruling, 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 Exchange Agreement between Metropolitan and SDCWA (see Note 6d) due to a price based on allegedly illegal rates; improper exclusion of SDCWA's payments under this Exchange Agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies and illegality of a "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 in the administrative record 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 transportation charges related to 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 and that SDCWA is entitled to contract damages in the amount of nearly \$188.3 million. On October 9 and 30, 2015, the trial court granted SDCWA's motion for prejudgment interest at the statutory rate of 10 percent on these damages. The prejudgment interest award through entry of judgment is \$46.6 million. After entry of judgment, post-judgment

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

interest began accruing at the statutory rate of 7 percent. 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 January 21, 2016, the court awarded \$320,084 in costs to SDCWA, after deducting amounts based on Metropolitan's motion. On March 24, 2016, the court awarded \$8.9 million in attorneys' fees to SDCWA, rejecting its demand for over \$17.0 million. Metropolitan filed a Notice of Appeal of the Judgment and Writ in each case and SDCWA filed a Notice of Cross-Appeal of the court's ruling on the rate structure integrity claim and the attorneys' fees order. Appellate briefing by the parties was completed on October 28, 2016. 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. 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. On November 20, 2015, SDCWA filed a motion to partially lift the stay. On December 21, 2015, the trial court denied that motion and the case remains stayed. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On April 13, 2016, SDCWA filed a new lawsuit that alleges all rates and charges for 2017 and 2018 adopted by Metropolitan's Board on April 12, 2016 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts misallocation of costs as alleged in the previous cases listed above and additional claims of over-collection and misallocation of costs and procedural violations. On June 30, 2016, the nine member agencies that are interested parties to the 2010, 2012, and 2014 cases filed answers to also join the 2016 case as interested parties in support of Metropolitan. On October 27, 2016, SDCWA filed a Motion for Leave to File Amended Complaint alleging the same Exchange Agreement breach alleged in the previous cases listed above and breach of a provision that requires Metropolitan to set aside disputed amounts, relating to the manner in which Metropolitan has set aside the amounts. The proposed amended petition/complaint also requests a judicial declaration that, if a judgment is owed to SDCWA under the Exchange Agreement, SDCWA will not be required to pay any portion of that judgment; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees. On November 10, 2016, pursuant to stipulation by the parties, the court ordered that the case be stayed pending final resolution of the appeals of the 2010 and 2012 SDCWA v. Metropolitan cases. 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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

Metropolitan identified ozone disinfection as the most cost-effective option to minimize the production of DBPs and achieve other water quality objectives. Ozone is now used as the primary disinfectant at the Diemer, Jensen, Mills, and Skinner plants. Construction of ozonation facilities at the Weymouth plant is on-going and should be completed in 2017. 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 paid approximately 75.0 percent of DWR's costs associated with the generation of electricity at the Plant and will pay this proportion of DWR's assigned mitigation costs.

(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 six months ended December 31, 2016 and 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.

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 24 percent and 22 percent of Metropolitan's total expenses during the six months ended December 31, 2016 and 2015, respectively, pertained to its net payment obligations for the State Water Project. These costs 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.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

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 \$65.1 million and \$56.1 million for the six months ended December 31, 2016 and 2015, respectively.

8. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at December 31, 2016 and 2015 were as follows:

(Dollars in thousands)	December 31,	
	2016	2015
Prepaid water costs	\$ 116,215	\$ 146,294
Prepaid costs-Delta Habitat conservation and conveyance	58,627	59,254
Prepaid costs-Bay/Delta	2,252	2,252
Prepaid expenses	7,606	10,542
Preliminary design/reimbursable projects	10,918	10,564
Other	72,055	76,778
Total deposits, prepaid costs, and other	267,673	305,684
Less current portion	(70,034)	(72,619)
Noncurrent portion	\$ 197,639	\$ 233,065

(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 December 31, 2016 and 2015, deferred water costs totaled approximately \$116.2 million and \$146.3 million, respectively, based on volumes of 465,000 acre-feet and 686,000 acre-feet, as of such dates.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

(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 \$0 for the six months ended December 31, 2016 and 2015. During fiscal year 2001, Metropolitan became trustee for the unspent funds, which totaled \$2.3 million at December 31, 2016 and 2015.

(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 December 31, 2016 and 2015, neither the plan assets nor the related liability were included in the accompanying basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

December 31, 2016 and 2015

(Unaudited)

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 and related deferred outflows and inflows of resources related to debt. 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 \$5.8 billion at December 31, 2016 and 2015, 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 \$331.1 million and \$378.4 million at December 31, 2016 and 2015, respectively, of which \$147.9 million and \$226.4 million, respectively, represents principal and interest set aside for the next bond payment. The remaining \$183.2 million and \$152.0 million, respectively, relate to estimated operating and maintenance expense for January and February of the subsequent fiscal quarter. Each of these requirements is related to bond covenants.

The unrestricted component of net position are those items that do not meet the definition of "restricted" or "net investment in capital assets, including State Water Project costs." Unlike the restricted net position, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The Board may at any time change or eliminate amounts established for these purposes. Unrestricted net position totaled \$532.8 million and \$710.0 million at December 31, 2016 and 2015, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

December 31, 2016 and 2015

(Unaudited)

II. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to the design, construction, treatment, and delivery of water resources. Metropolitan self-insures most of its property losses, the first \$25.0 million for general liability 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. Metropolitan also carries coverage limits of \$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 2017 were unchanged from fiscal year 2016. 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.

APPENDIX C

**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS
AND THE PAYING AGENT AGREEMENT**

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APPENDIX C

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

The following is a summary of certain provisions of the Master Resolution, the Twenty-Second Supplemental Resolution and the Paying Agent Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing documents for a complete statement of the provisions of such documents.

MASTER RESOLUTION AND TWENTY-SECOND SUPPLEMENTAL RESOLUTION

Definitions

The following are definitions of terms used in the Master Resolution and the Twenty-Second Supplemental Resolution. Such definitions also apply to terms used in the Official Statement, to the extent that such terms are not otherwise defined in the Official Statement.

“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 \$100,000 and integral multiples of \$5,000 in excess 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 2017 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-Second 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 2017 Authorization Bonds, the Water Revenue Bonds 2017 Authorization Construction Fund established for such Series pursuant to the Twenty-Second 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 2017 Authorization Bonds, the Water Revenue Bonds 2017 Authorization Excess Earnings Fund established for such Series pursuant to the Twenty-Second 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 2017 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-Second 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 2017 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 caption “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-Second 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 2017 Authorization Bonds, the Water Revenue Bonds 2017 Authorization Reserve Fund established for such Series pursuant to the Twenty-Second Supplemental Resolution.

“Reserve Fund Credit Policy” means, with respect to a Series of 2017 Authorization Bonds, an insurance policy, surety bond, letter of credit or other credit facility deposited with the Fiscal Agent pursuant to the Twenty-Second Supplemental Resolution.

“Resolution” means the Master Resolution as supplemented, modified or amended by each Supplemental Resolution, including without limitation, the Twenty-Second 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 2017 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 2017 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 2017 Authorization Bonds, the Tax and Nonarbitrage Certificate of Metropolitan delivered by Metropolitan in connection with the issuance of such Series of 2017 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 2017 Authorization Bonds and which sets forth the terms and conditions of such Series of 2017 Authorization Bonds and which appoints any Paying Agent, Remarketing Agent or other agent with respect to such Series of 2017 Authorization Bonds.

“2017 Authorization Bonds” means the Bonds described in the Twenty-Second Supplemental Resolution, authorized and issued pursuant to the Master Resolution, as supplemented by the Twenty-Second Supplemental Resolution, and includes Fixed Rate Bonds and Variable Rate Bonds.

“2017 Authorization Capital Appreciation Bonds” means the 2017 Authorization Bonds issued as Capital Appreciation Bonds as described in the Twenty-Second Supplemental Resolution.

“Underwriters” means, with respect to a Series of 2017 Authorization Bonds, in the case of a negotiated sale, the original purchaser or purchasers of such Series of 2017 Authorization Bonds and in the case of a competitive sale, the successful bidder or bidders for such Series of 2017 Authorization Bonds.

“Variable Rate Bonds” means 2017 Authorization Bonds bearing interest as determined from time to time by a Remarketing Agent, a calculation agent, pursuant to an index or otherwise in accordance with the provisions of the Trust Agreement with respect to such 2017 Authorization Bonds.

“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 2017A 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 2017A 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 2017A 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.

Insurance. Metropolitan covenants that it shall at all times maintain with responsible insurers, to the extent available from responsible insurers at reasonable rates, or through a program of self-insurance (or a combination thereof) all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System shall be damaged or destroyed, such part shall be restored to use. The money collected from insurance against accident to or destruction of the Water System shall be used for repairing or rebuilding the damaged or destroyed Water System, and to the extent not so applied, shall be applied to the retirement of any Outstanding Bonds.

Metropolitan shall also (by self-insuring or by maintenance with responsible insurers, to the extent available from responsible insurers at reasonable rates, or by a combination thereof) provide for workers' compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect Metropolitan and the Owners.

Records and Accounts. Metropolitan shall keep proper books of records and accounts of the Water System separate from all other records and accounts in which complete and correct entries shall be made of all transactions relating to the Water System. Such books shall at all times be subject to the inspection of the Owners of not less than 10 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.

Rates and Charges. Metropolitan shall prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay the following amounts in the order set forth: (a) Operation and Maintenance Expenditures; (b) the interest on and Bond Obligation (including Mandatory Sinking Account 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.

No Priority for Additional Bonds. No additional bonds, notes or other evidences of indebtedness payable out of the Operating Revenues shall be issued having any priority in payment of principal, premium, if any, or interest over the Outstanding Bonds or Parity Obligations.

Limits on Additional Debt. Except Refunding Bonds or Parity Obligations to the extent incurred to pay or discharge Outstanding Bonds or Parity Obligations and which do not result in an increase in the average annual debt service on all Bonds or Parity Obligations to be Outstanding after the issuance of such Refunding Bonds or Parity Obligations, no additional Bonds or Parity Obligations shall be created or incurred unless:

First: Metropolitan is not in default under the terms of the Master Resolution; and

Second: Either (i) the Net Operating Revenues as shown by the books and records of Metropolitan for the latest Fiscal Year or for any 12 consecutive month period within the last completed 24-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Obligations as set forth in a certificate of Metropolitan or (ii) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Water System financed with the proceeds of the additional Bonds or Parity Obligations shall be in operation as estimated by and set forth in a certificate of Metropolitan, plus, at the option of Metropolitan, any or all of the items hereinafter in this covenant designated (a), (b), (c) and (d), shall have amounted to not less than 1.20 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds and Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional Bonds or Parity Obligations.

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

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operation and Maintenance Expenditures) which may arise from any additions to and extensions and improvements of the Water System to be made or acquired with the proceeds of such additional Bonds or Parity Obligations or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 24-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the certificate of Metropolitan.

(b) An allowance for earnings arising from any increase in the charges made for the use of the Water System which has become effective prior to the incurring of such additional Bonds or Parity Obligations but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 24-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12 consecutive month period within the last completed 24-month period, as shown by the certificate of Metropolitan.

(c) Any Additional Revenues.

(d) Any other moneys of Metropolitan reasonably expected to be available to pay principal and Accreted Value of and interest on the Bonds or Parity Obligations, as evidenced by a certificate of Metropolitan.

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

Nothing in the Master Resolution shall limit the ability of Metropolitan to issue or incur obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts

then due required to be paid or set aside under the Master Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations, as the same become due and payable and at the times and in the manner as required in the Master Resolution or any Parity Obligations documents.

Operation in an Efficient and Economical Manner. Metropolitan covenants and agrees to conduct the operations of the Water System in an efficient and economical manner and to maintain and preserve the Water System in good repair and working order.

Amendments to Master Resolution

The Master Resolution and the rights and obligations of Metropolitan, the Owners of the Bonds and any Fiscal Agent may be modified or amended from time to time and at any time by filing with each Fiscal Agent (or if such modification or amendment is only applicable to a Series of Bonds, to such Fiscal Agent) a Supplemental Resolution, adopted by the Board with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Resolution is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding in connection with amendments to the Master Resolution.

No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (2) reduce the percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Operating Revenues and other assets pledged under the Master Resolution prior to or on 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.

Bondholders' Committee. If an Event of Default shall have occurred and be continuing, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may call a meeting of the Owners for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The 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-SECOND 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 2017 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 2017 Authorization Bonds pursuant to the Twenty-Second 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 2017 Authorization Series _____ Reserve Fund” (inserting the designation for each Series of 2017 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-Second 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 2017 Authorization Bonds will be pledged to secure the payment of the principal and Final Compounded Amount of, and interest on, such Series of 2017 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 2017 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 2017 Authorization Bonds will be set forth in the Sales Documents for such Series of 2017 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 2017 Authorization Bonds will be used and withdrawn by the Treasurer, as provided in the Twenty-Second Supplemental Resolution, solely for the purpose of: (i) paying principal and Final Compounded Amount of, and interest on, such Series of 2017 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 2017 Authorization Bonds. Any amounts in a Reserve Fund established with respect to a Series of 2017 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-Second 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 2017 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 2017 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-Second Supplemental Resolution, Metropolitan will establish and the Treasurer will maintain a fund for each Series of 2017 Authorization Bonds issued under the Twenty-Second 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 2017 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 2017 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 2017 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-Second 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 2017 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 2017 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-Second 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 2017 Authorization Bonds will be entitled to exercise any right or remedy provided to the Owners under the Master Resolution or the Twenty-Second 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-Second 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.

PAYING AGENT AGREEMENT

DEFINITIONS; INTERPRETATION

Certain Defined Terms

The terms defined in the Paying Agent Agreement will, for all purposes of the Paying Agent Agreement, have the meanings specified therein unless the context clearly requires otherwise. All capitalized terms used but not defined in the Paying Agent Agreement have the meanings provided in the Master Resolution or the Twenty-Second Supplemental Resolution.

“**Account**” means any account established pursuant to the Paying Agent Agreement.

“**Adjustable Interest Rate**” means a rate of interest payable with respect to any 2017A Bonds prior to the Fixed Rate Date, determined pursuant to the Paying Agent Agreement.

“**Alternate Liquidity Facility**” means a letter of credit and related reimbursement agreement, line of credit, standby bond purchase agreement or similar agreement providing for the purchase of all or a portion of the 2017A Bonds tendered pursuant to the Paying Agent Agreement that Metropolitan delivers to the Paying Agent pursuant to the Paying Agent Agreement in substitution of any Liquidity Facility then in effect, including any renewal or extension of the term thereof, as each such agreement may be amended, supplemented or otherwise modified from time to time, issued and delivered to the Paying Agent.

“**Authorized District Representative**” means the Assistant General Manager/Chief Financial Officer of Metropolitan, the Treasurer of Metropolitan or any officer authorized to act on behalf of either of such officers.

“**Bank Bond**” or “**Bank Bonds**” means any 2017A Bond or 2017A Bonds purchased with moneys provided under any Liquidity Facility and any 2017A Bonds issued in exchange for or in replacement or substitution thereof.

“**Bank Bond Rate**” means, at any date of determination, the rate of interest then borne by Bank Bonds as determined under the applicable Liquidity Facility then in effect.

“**Beneficial Owner**” means, wherever used with respect to a 2017A Bond, the person in whose name such 2017A Bond is recorded as the beneficial owner of such 2017A Bond by a Participant on the records of such Participant, or such person’s subrogee.

“**Bond Counsel**” means a firm of attorneys nationally recognized as experts in the area of municipal finance who are familiar with the transactions contemplated under the Paying Agent Agreement and acceptable to Metropolitan.

“**Bond Interest Term**” means, with respect to any 2017A Bond, a period established in accordance with the Paying Agent Agreement during which such 2017A Bond bears interest at a Bond Interest Term Rate.

“**Bond Interest Term Rate**” means, with respect to any 2017A Bond, a rate of interest per annum on such 2017A Bond, established periodically in accordance with the Paying Agent Agreement.

“**Bond Register**” means the bond register that the Paying Agent maintains pursuant to the Paying Agent Agreement.

“**Book-Entry Bonds**” means the 2017A Bonds held by DTC (or its nominee) as the Owner thereof pursuant to the terms and provisions of the Paying Agent Agreement.

“**Business Day**” means a day: (a) other than a Saturday or Sunday; (b) other than a day on which banks located in the City of New York, New York or the cities in which the respective principal offices of the Fiscal

Agent, the Liquidity Provider, if any, or the Remarketing Agent, or the Corporate Trust Office of the Paying Agent, are located, are required or authorized by law or executive order to close; and (c) on which the New York Stock Exchange is open.

“**Call Protection Date**” means the Standard Call Protection Date, unless Metropolitan determines a different date pursuant to the provisions of the Paying Agent Agreement, as applicable.

“**Closing Date**” means March 1, 2017.

“**Code**” means the Internal Revenue Code of 1986, as amended, and the regulations applicable thereto or issued thereunder or any successor statute thereto.

“**Corporate Trust Office**” means with respect to the initial Paying Agent its corporate trust office located at Corporate Trust Transaction Management Group, 10161 Centurion Parkway North, Jacksonville, Florida 32256, or, solely for purposes of the presentation of the 2017A Bonds for payment, transfer or exchange, the corporate trust operations or agency office designated by the Paying Agent. The Paying Agent may designate alternate Corporate Trust Offices and any successor Paying Agent will designate its Corporate Trust Office by written notice delivered to the Notice Parties.

“**Daily Mode**” means an Interest Mode in which the interest rate payable with respect to the 2017A Bonds is determined on each Business Day by the Remarketing Agent pursuant to the Paying Agent Agreement.

“**Daily Rate**” means a rate of interest payable with respect to the 2017A Bonds in a Daily Mode, established by the Remarketing Agent in accordance with the Paying Agent Agreement.

“**Daily Rate Period**” means each period during which a Daily Rate for the 2017A Bonds is in effect.

“**District Account**” means the Account of the Purchase Fund so designated and established under and pursuant to the Paying Agent Agreement.

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

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

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

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

“**District Bonds**” means Self-Liquidity Bonds or beneficial interests therein that Metropolitan purchases pursuant to the Paying Agent Agreement and the 2017A Bonds issued in exchange for and in replacement or substitution thereof; provided, however, that “District Bonds” do not include any Liquidity Supported Bonds that Metropolitan owns or any Self-Liquidity Bonds that Metropolitan purchases for its own account outside of and other than the purchase of 2017A Bonds tendered pursuant to the optional or mandatory tender provisions of the Paying Agent Agreement (other than in connection with the Flexible Index Mode or Index Mode).

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

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

“**Event of Default**” has the meaning given such term in the Paying Agent Agreement.

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

“**Failed Tender**” has the meaning given such term in the Paying Agent Agreement. For avoidance of doubt, a Failed Tender does not include any failure of Metropolitan to pay the Purchase Price of 2017A Bonds tendered for purchase pursuant to the optional or mandatory provisions of the Paying Agent Agreement in connection with the Flexible Index Mode or the Index Mode.

“**Favorable Opinion of Bond Counsel**” means, with respect to any action the occurrence of which requires such an opinion, an unqualified opinion of Bond Counsel to the effect that such action is authorized and permitted under the Act, the Resolutions and the Paying Agent Agreement, complies with the Resolutions and the Paying Agent Agreement and will not impair the exclusion of interest on the 2017A Bonds from gross income for purposes of Federal income taxation or the exemption of interest on the 2017A Bonds from personal income taxation under the laws of the State (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the 2017A Bonds).

“**Fiscal Year**” means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other period as Metropolitan designates as its fiscal year.

“**Fitch**” means Fitch, Inc., doing business as Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns and, if such corporation for any reason no longer performs the functions of a securities rating agency, “Fitch” will be deemed to refer to any other nationally recognized rating agency designated by Metropolitan.

“**Fixed Interest Rate**” means an annual rate of interest payable with respect to the 2017A Bonds from and after the Fixed Rate Date upon conversion to a Fixed Interest Rate, established by the Remarketing Agent pursuant to the Paying Agent Agreement.

“**Fixed Rate Date**” means the date on which the annual rate of interest with respect to the 2017A Bonds becomes fixed and determined for the remainder of the term of the 2017A Bonds pursuant to the terms of the Paying Agent Agreement.

“**Flexible Index Mode**” means an Interest Mode in which the interest rate payable with respect to the Bonds is adjusted pursuant to the Paying Agent Agreement, and the Tender Period of which does not exceed 270 days.

“**Flexible Index Mode Scheduled Mandatory Tender**” means the mandatory tender for purchase of 2017A Bonds in the Flexible Index Mode pursuant to the provisions of the Paying Agent Agreement.

“**Flexible Index Mode Scheduled Mandatory Tender Failure**” means the failure of Metropolitan to pay or provide for the payment of the Purchase Price of all 2017A Bonds tendered pursuant to a Flexible Index Mode Scheduled Mandatory Tender on a Scheduled Mandatory Tender Date.

“**Fund**” means any fund established pursuant to the Paying Agent Agreement.

“**Holder**” or “**Owner**” means the registered owner of any 2017A Bonds as indicated in the Bond Register maintained under the Paying Agent Agreement, including DTC or its nominee as the sole registered owner of Book-Entry Bonds.

“Index Mode” means an Interest Mode in which the interest rate payable with respect to the 2017A Bonds is adjusted pursuant to the Paying Agent Agreement, and the Tender Period of which may exceed 270 days.

“Index Mode Scheduled Mandatory Tender” means the mandatory tender for purchase of 2017A Bonds in the Index Mode pursuant to the provisions of the Paying Agent Agreement.

“Index Mode Scheduled Mandatory Tender Failure” means the failure of Metropolitan to pay or provide for the payment of the Purchase Price of all 2017A Bonds tendered pursuant to an Index Mode Scheduled Mandatory Tender on a Scheduled Mandatory Tender Date.

“Index Rate Accrual Period” means, for 2017A Bonds in a Flexible Index Mode or an Index Mode, the period from each Interest Accrual Date to and including: (a) the day next preceding the next Interest Payment Date for such 2017A Bonds; and (b) the day next preceding any Redemption Date, as applicable.

“Index Spread” means, with respect to each Tender Period for 2017A Bonds in a Flexible Index Mode or an Index Mode, a fixed per annum rate determined by the Remarketing Agent in accordance with the Paying Agent Agreement.

“Index Tender Rate” means, with respect to 2017A Bonds bearing interest in the Flexible Index Mode or the Index Mode, the per annum rate of interest, determined for any Index Rate Accrual Period, equal to the sum of: (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period; and (b) the Index Spread applicable for the related Tender Period.

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

“Initial Liquidity Facility” means the Standby Bond Purchase Agreement, dated as of March 1, 2017, by and between Metropolitan and the Initial Liquidity Provider as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Initial Liquidity Provider” means Citibank, N.A.

“Interest Accrual Date” means, with respect to any period during which the 2017A Bonds are in the Daily Mode, the effective date of the change in Interest Mode to the Daily Mode (or, in the case of the 2017A Bonds which will initially be issued in a Daily Mode, the date of delivery of the 2017A Bonds) and, thereafter, each Interest Payment Date while the 2017A Bonds are in the Daily Mode.

“Interest Mode” means, at any time, the mode in which the 2017A Bonds bear interest at an Adjustable Interest Rate and includes the Flexible Index Mode, the Index Mode, the Daily Mode, the Weekly Mode, the Short-Term Mode and the Long Mode.

“Interest Payment Date” means: (i) during such time as the 2017A Bonds bear interest in the Daily Mode, the first Business Day of each calendar month, commencing on April 3, 2017; (ii) the Fixed Rate Date (without duplication); (iii) the date of final maturity of the 2017A Bonds (without duplication); (iv) with respect to any Bank Bonds, the dates provided in the applicable Liquidity Facility; and (v) with respect to any District Bonds, the first Business Day of each calendar month.

“Interest Rate Period” includes any period during which 2017A Bonds bear interest in a Flexible Index Mode or an Index Mode, and any Daily Rate Period, any Weekly Rate Period, any Short-Term Rate Period and any Long Period.

“Liquidity Facility” means the Initial Liquidity Facility and any other letter of credit and related reimbursement agreement, line of credit, standby bond purchase agreement or similar agreement which provides for the payment of the Purchase Price of the 2017A Bonds tendered for purchase pursuant to the Paying Agent Agreement that Metropolitan delivers to the Paying Agent pursuant to the Paying Agent Agreement in connection with a change in the Interest Mode of the 2017A Bonds to a Weekly Mode, a Short-Term Mode or a Long Mode or a change in the designation of the 2017A Bonds in any such Interest Mode from Self-Liquidity Bonds to Liquidity Supported Bonds, including any renewal or extension of the term of each such agreement, as each such agreement may be amended, supplemented or otherwise modified from time to time, issued and delivered to the Paying Agent, and upon the issuance of any Alternate Liquidity Facility, such Alternate Liquidity Facility.

“Liquidity Provider” means the Initial Liquidity Provider and any other issuer or provider of any other Liquidity Facility.

“Liquidity Supported Bonds” means with respect to 2017A Bonds bearing interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode, the 2017A Bonds bearing interest in such Interest Mode that Metropolitan designates as Liquidity Supported Bonds pursuant to the Paying Agent Agreement.

“Long Mode” means an Interest Mode in which the interest rate payable with respect to the 2017A Bonds is adjusted at the intervals determined by the Remarketing Agent pursuant to the Paying Agent Agreement.

“Long Period” means each period during which a Long Rate for the 2017A Bonds is in effect.

“Long Rate” means a rate of interest payable with respect to the 2017A Bonds in a Long Mode, established by the Remarketing Agent in accordance with the Paying Agent Agreement.

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

“Mandatory Purchase Date” means any date upon which any 2017A Bonds have been called for mandatory tender for purchase in accordance with the Paying Agent Agreement.

“Master Note” means, in connection with a change in the Interest Mode of the 2017A Bonds to the Flexible Index Mode, the Municipal Commercial Paper – TECP Master Note dated the effective date of the change in Interest Mode to the Flexible Index Mode, executed by Metropolitan and authenticated by the Paying Agent, in substantially the form attached to the Paying Agent Agreement.

“Maximum Interest Rate” means: (a) with respect to 2017A Bonds (other than Bank Bonds and District Bonds) the lesser of: (i) 12% per annum; or (ii) the maximum interest rate permitted by federal law and the laws of the State of California; (b) with respect to Bank Bonds, the maximum interest rate permitted under federal law and the laws of the State of California with respect to any obligation incurred by Metropolitan under any Liquidity Facility; provided, however, that in no event will the “Maximum Interest Rate” exceed 18%; and (c) with respect to District Bonds, the maximum interest rate permitted by federal law and the laws of the State of California.

“MMI Procedures” means, with respect to 2017A Bonds while in the Flexible Index Mode, DTC’s Operational Arrangements and the Issuing/Paying Agent General Operating Procedures for Money Market Instruments as the same may be amended and modified from time to time.

“Monthly Report” has the meaning given such term in the Paying Agent Agreement.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors, and, if such corporation for any reason no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized rating agency designated by Metropolitan.

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

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

“Paying Agent” means The Bank of New York Mellon Trust Company, N.A., as appointed under the Paying Agent Agreement and any successor appointed pursuant to the Paying Agent Agreement.

“Prime Rate” means the rate per annum equal to the “prime rate” listed daily in the “Money Rate” section of The Wall Street Journal. If The Wall Street Journal is not published on any Business Day or if The Wall Street Journal does not publish a “prime rate” for any Business Day, then the “Prime Rate” for that Business Day will be the “prime rate” published on the display designated as page “PRIMBB” on the Bloomberg Financial Markets News Service until the next Business Day on which The Wall Street Journal publishes the “prime rate.” If neither The Wall Street Journal nor the Bloomberg Financial Markets News Service publish a “prime rate” for a Business Day, then the “Prime Rate” means the “prime rate” most recently published in The Wall Street Journal or the Bloomberg Financial Markets News Service.

“Purchase Account” means the Account of the Purchase Fund so designated and established in the Paying Agent Agreement.

“Purchase Default Period” means, for 2017A Bonds while in the Flexible Index Mode or the Index Mode, the period from and after the Scheduled Mandatory Tender Date on which a Flexible Index Mode Scheduled Mandatory Tender Failure or an Index Mode Scheduled Mandatory Tender Failure occurs, as the case may be, until the date next preceding the date on which the earlier of the following occurs: (a) the purchase by Metropolitan of all then-Outstanding 2017A Bonds pursuant to the Paying Agent Agreement; and (b) the redemption of all then-Outstanding 2017A Bonds pursuant to the Paying Agent Agreement.

“Purchase Default Period Purchase Date” has the meaning given such term in the Paying Agent Agreement.

“Purchase Default Rate” means a per annum rate equal to the lower of: (a) 12%; and (b) the higher of: (i) 8%; and (ii) the Prime Rate plus 3%.

“Purchase Fund” means each Fund so designated and established in the Paying Agent Agreement.

“Purchase Price” means, with respect to any 2017A Bonds purchased pursuant to the Paying Agent Agreement, an amount equal to the principal amount of such 2017A Bonds, plus accrued and unpaid interest to the purchase date (unless the purchase date is otherwise an Interest Payment Date, in which case the Purchase Price will not include accrued interest, which will be paid in the normal course). With respect to any 2017A Bonds purchased during any Purchase Default Period, the “Purchase Price” will mean an amount equal to the principal amount of such 2017A Bonds, plus accrued and unpaid interest to the Purchase Default Period Purchase Date (unless such Purchase Default Period Purchase Date is an Interest Payment Date, in which case the Purchase Price does not include accrued interest, which will be paid in the normal course).

“Rating Agency” means each of Moody’s (if then rating the 2017A Bonds), S&P (if then rating the 2017A Bonds) or Fitch (if then rating the 2017A Bonds).

“Record Date” means with respect to 2017A Bonds bearing interest at a Daily Rate, the Business Day immediately preceding each Interest Payment Date.

“Redemption Date” means the date fixed for redemption of any 2017A Bonds prior to maturity pursuant to the Paying Agent Agreement.

“Redemption Price” means, with respect to any 2017A Bond or portion thereof to be redeemed, a price equal to the principal amount of a 2017A Bond or portion thereof, plus premium, if applicable.

“Remarketing Agent” means Citigroup Global Markets Inc., or any successor appointed pursuant to the Paying Agent Agreement.

“Remarketing Agreement” means, initially, the Remarketing Agreement, dated as of March 1, 2017, by and between Metropolitan and the Remarketing Agent, relating to the 2017A Bonds as it may be amended, supplemented or otherwise modified from time to time, and, subsequently, any similar agreement between Metropolitan and any successor Remarketing Agent, as any such agreement may be amended, supplemented or otherwise modified from time to time.

“Remarketing Proceeds Account” means the Account of the Purchase Fund so designated and established in the Paying Agent Agreement.

“Representation Letter” means the Letter of Representations from Metropolitan to DTC with respect to its book-entry obligations, including the 2017A Bonds.

“Resolutions” means, collectively, the Master Resolution and the Twenty-Second Supplemental Resolution.

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

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

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

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

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

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, and its successors, and if such company for any reason no longer performs the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by Metropolitan.

“Scheduled Mandatory Tender Date” means, for Series 2017A Bonds while in the Flexible Index Mode or the Index Mode, and with respect to each Tender Period, the date determined by Metropolitan pursuant to the Paying Agent Agreement.

“Securities Depository” means The Depository Trust Company or any successor agency.

“**Self-Liquidity Bonds**” means with respect to 2017A Bonds bearing interest in the Daily Mode, the 2017A Bonds bearing interest in such Interest Mode that Metropolitan designates as Self-Liquidity Bonds pursuant to the Paying Agent Agreement.

“**Short-Term Mode**” means an Interest Mode in which the interest rate payable with respect to the 2017A Bonds is adjusted at the intervals determined by the Remarketing Agent pursuant the Paying Agent Agreement.

“**Short-Term Rate Period**” means each period, comprised of Bond Interest Terms, during which Bond Interest Term Rates are in effect.

“**SIFMA**” means, as of any date, the per annum rate published or reported by Municipal Market Data on its SIFMA Municipal Swap Index most recently available, or if the SIFMA Municipal Swap Index is no longer published or reported, the rate per annum published or reported on the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or if neither the SIFMA Municipal Swap Index nor the S&P Weekly High Grade Index is published, a per annum rate equal to 65% of the London InterBank Offered Rate for one-month deposits in U.S. Dollars.

“**SIFMA Average Index Rate**” means, during each Index Rate Accrual Period, the per annum rate equal to the average of SIFMA in effect for each day in such Index Rate Accrual Period.

“**Special Mandatory Redemption Amount**” means, with respect to special mandatory redemption during any Purchase Default Period pursuant to the Paying Agent Agreement, the aggregate principal amount of 2017A Bonds Outstanding on the Scheduled Mandatory Tender Date on which such Purchase Default Period commenced.

“**Special Mandatory Redemption Payments**” means, with respect to 2017A Bonds bearing interest in a Flexible Index Mode or an Index Mode, the amount required by the Paying Agent Agreement to be deposited by the Treasurer in the Bond Service Fund for the payment of 2017A Bonds.

“**Standard Call Protection Date**” means: (a) with respect to 2017A Bonds bearing interest in a Flexible Index Mode: (i) if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is 180 days or less, the Tender Period Halfway Date; and (ii) if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is more than 180 days, the date that is 180 days before the Scheduled Mandatory Tender Date; and (b) with respect to 2017A Bonds bearing interest in an Index Mode: (i) if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is one year or less, the Tender Period Halfway Date and (b) if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is more than one year, the date that is 180 days before the Scheduled Mandatory Tender Date.

“**State**” means the State of California.

“**Substitution Date**” means the date on which an Alternate Liquidity Facility is substituted for the Liquidity Facility.

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

“**Tender Period**” means, with respect to 2017A Bonds bearing interest in a Flexible Index Mode or an Index Mode, the period determined pursuant to the Paying Agent Agreement).

“**Tender Period Halfway Date**” means, with respect to any Tender Period, the date occurring halfway between the commencement of such Tender Period and the Scheduled Mandatory Tender Date for such Tender Period, which will be calculated by: (a) dividing the number of days from and including the date on which such Tender Period commences to and not including the Scheduled Mandatory Tender Date by two and, if necessary,

rounding the result down to the nearest whole number; and (b) adding the resulting number of days to the commencement date of such Tender Period.

“**Treasurer**” means the Treasurer or the Assistant Treasurer of Metropolitan.

“**2017A Bonds**” means the bonds issued under the Paying Agent Agreement and designated as “The Metropolitan Water District of Southern California Water Revenue Bonds, 2017 Authorization Series A,” and includes Bank Bonds and District Bonds.

“**Undelivered Bond**” means any 2017A Bond that has not been delivered by its Owner to the Paying Agent in the place, at the time or in the manner specified in the Paying Agent Agreement, in connection with a purchase of 2017A Bonds pursuant to the Paying Agent Agreement.

“**Weekly Mode**” means an Interest Mode in which the interest rate payable with respect to the 2017A Bonds is determined weekly by the Remarketing Agent pursuant to the Paying Agent Agreement.

“**Weekly Rate**” means a rate of interest payable with respect to 2017A Bonds in a Weekly Mode, established by the Remarketing Agent in accordance with the Paying Agent Agreement.

“**Weekly Rate Period**” means each period during which a Weekly Rate for the 2017A Bonds is in effect.

Appointment of Paying Agent. The Paying Agent has been appointed and engaged to act as agent to the Fiscal Agent for the purpose of authentication and transfer of the 2017A Bonds in accordance with the Master Resolution, as amended and supplemented, and to perform certain other functions all as provided in the Paying Agent Agreement. By executing and delivering the Paying Agent Agreement, the Paying Agent has accepted the duties and obligations provided therein, but only upon the terms and conditions set forth therein.

New York City Time. Except as otherwise provided in the Paying Agent Agreement, whenever any time of day is set forth therein, it is understood and agreed that such time means New York City time.

THE 2017A BONDS

Interest Rates

Election of Flexible Index Mode or Index Mode. Metropolitan, by written direction to the other Notice Parties, may elect, subject to the provisions of the Paying Agent Agreement, that the 2017A Bonds will bear interest at an Index Tender Rate in either the Flexible Index Mode or the Index Mode. Such direction of Metropolitan will specify:

- (i) The election of either the Flexible Index Mode or the Index Mode;
- (ii) the effective date of the change in Interest Mode to the Flexible Index Mode or the Index Mode, as the case may be, which date will be a Business Day not earlier than the eighth day following the date such direction is given, and: (x) in the case of a change from a Long Mode, the day immediately following the last day of the then-current Long Period or a day on which the 2017A Bonds would otherwise be subject to optional redemption pursuant to the Paying Agent Agreement if such change did not occur; or (y) in the case of a change from the Flexible Index Mode to the Index Mode or from the Index Mode to a Flexible Index Mode, a Business Day occurring on or after the Call Protection Date of the Tender Period then in effect for the 2017A Bonds;
- (iii) the related Mandatory Purchase Date; and
- (iv) the Business Day that Metropolitan elects to be the Scheduled Mandatory Tender Date of the Tender Period commencing on the effective date of the change in Interest Mode to a Flexible Index Mode or an Index Mode (provided, that the Scheduled Mandatory Tender Date will not be earlier than three months after the commencement of the Tender Period).

With respect to any Tender Period commencing on the effective date of a change in Interest Mode to the Flexible Interest Mode or the Index Mode or any Tender Period commencing on the effective date of a Flexible Index Mode or an Index Mode immediately following a Purchase Default Period, the Call Protection Date for such Tender Period will be the Standard Call Protection Date. In addition, the direction of Metropolitan will be accompanied by a form of notice to be given to the Owners of the 2017A Bonds by the Paying Agent as provided in the Paying Agent Agreement. During the period beginning with the first day on which the 2017A Bonds bear interest in a Flexible Index Mode or an Index Mode and ending on the effective date of a change to an Interest Mode other than the Flexible Index Mode or the Index Mode, the interest rate borne by the 2017A Bonds will be an Index Tender Rate.

If the 2017A Bonds in the Flexible Index Mode will be supported by a commercial paper program, the following additional conditions must be satisfied before a conversion to a Flexible Index Mode may become effective:

(A) The District must engage, at its expense, a commercial paper issuing and paying agent, reasonably acceptable to the Paying Agent, having access to DTC's MMI Procedures and otherwise eligible to serve as an issuing and paying agent under DTC's policies and procedures for the issuance and payment of commercial paper;

(B) The Remarketing Agent must arrange for the execution and delivery to DTC of the Master Note to make the 2017A Bonds in the Flexible Interest Mode eligible for DTC's book entry system, and for the provision of any needed CUSIP numbers;

(C) The District will take all other action that is required to comply with DTC requirements that are applicable to the issuance and payment of the 2017A Bonds while in the Flexible Index Mode; and

(D) The District will enter into any amendment of the Paying Agent Agreement that is required to comply with DTC's or any Rating Agency's requirements concerning the issuance and payment of the 2017A Bonds in the Flexible Index Mode.

Notice of Election of Flexible Index Mode or Index Mode. The Paying Agent will give notice, together with the notice required by the Paying Agent Agreement, by Mail to the Owners of the 2017A Bonds (or, if the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), of a change in Interest Mode to the Flexible Index Mode or the Index Mode not less than seven days prior to the effective date of the change to the Flexible Index Mode or the Index Mode, as the case may be. Such notice will state: (i) that the interest rate on the 2017A Bonds will be changed to an Index Tender Rate and that the 2017A Bonds will bear interest in the Flexible Index Mode or the Index Mode (as the case may be), unless, in the case of a change from a Long Rate, Bond Counsel fails to deliver to the Notice Parties a Favorable Opinion of Bond Counsel as to such change on the effective date of such change, in which case the 2017A Bonds will continue to bear interest at the Long Rate in effect immediately prior to such proposed change in Interest Mode; (ii) the effective date of the change to the Flexible Index Mode or the Index Mode, as the case may be; (iii) that the 2017A Bonds are subject to mandatory tender for purchase on the effective date, setting forth the applicable Purchase Price; and (iv) if the 2017A Bonds are no longer in book-entry form, information with respect to the required delivery of bond certificates and payment of the Purchase Price under the Paying Agent Agreement.

Election of Weekly Mode. Metropolitan, by written direction to the other Notice Parties, may elect, subject to the provisions of the Paying Agent Agreement, to change the Interest Mode of the 2017A Bonds to the Weekly Mode. Such direction of Metropolitan will specify: (i) the effective date of such change to a Weekly Mode, which will be a Business Day not earlier than the eighth day following the date such direction is given, and: (x) in the case of a change from a Long Mode, the day immediately following the last day of the then-current Long Period or a day on which the 2017A Bonds would otherwise be subject to optional redemption pursuant to the Paying Agent Agreement if such change did not occur; or (y) in the case of a change from a Flexible Index Mode or an Index Mode, a Business Day occurring on or after the Call Protection Date of the Tender Period then in effect; (ii) whether, upon the change to the Weekly Mode, the 2017A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds; and (iii) if applicable, the Mandatory Purchase Date. In addition, the direction of Metropolitan will be accompanied by a form of notice to be given to the Owners of the 2017A Bonds by the Paying Agent as

provided in the Paying Agent Agreement. During the period beginning with the first day on which the 2017A Bonds bear interest in the Weekly Mode and ending on the effective date of a change to an Interest Mode other than the Weekly Mode, the interest rate borne by the 2017A Bonds will be a Weekly Rate.

Notice of Election of Weekly Mode. The Paying Agent will give notice, together with the notice required by the Paying Agent Agreement, by Mail to the Owners of the 2017A Bonds (or, if the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), of a change in Interest Mode to a Weekly Mode not less than seven days prior to the effective date of the change to the Weekly Mode. Such notice will state: (i) that the interest rate on the 2017A Bonds will be changed to a Weekly Rate unless, in the case of a change from a Long Rate, Bond Counsel fails to deliver to the Notice Parties a Favorable Opinion of Bond Counsel as to such change on the effective date of such change, in which case the 2017A Bonds will continue to bear interest at the Long Rate in effect immediately prior to such proposed change in Interest Mode; (ii) the effective date of the change to the Weekly Mode; (iii) whether, upon the change to the Weekly Mode, the 2017A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds, and if the 2017A Bonds will be Liquidity Supported Bonds following the change to the Weekly Mode, the name of the Liquidity Provider; (iv) if applicable, that the 2017A Bonds are subject to mandatory tender for purchase on the effective date, setting forth the applicable Purchase Price; and (v) if the 2017A Bonds are no longer in book-entry form, information with respect to the required delivery of bond certificates and payment of the Purchase Price under the Paying Agent Agreement.

Election of Short-Term Mode. Metropolitan, by written direction to the other Notice Parties, may elect, subject to the provisions of the Paying Agent Agreement, to change the Interest Mode of the 2017A Bonds to the Short-Term Mode. Such direction of Metropolitan will specify: (i) the effective date of the change to a Short-Term Mode, which will be a Business Day not earlier than the eighth day following the date such direction is given; and (x) in the case of a change from a Long Mode, the day immediately following the last day of the then-current Long Period or a day on which the 2017A Bonds would otherwise be subject to optional redemption pursuant to the Paying Agent Agreement if such change did not occur; or (y) in the case of a change from a Flexible Index Mode or an Index Mode, a Business Day occurring on or after the Call Protection Date of the Tender Period then in effect; (ii) whether, upon the change to the Short-Term Mode, the 2017A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds; and (iii) the Mandatory Purchase Date. In addition, the direction of Metropolitan will be accompanied by a form of the notice to be given by the Paying Agent to the Owners of the 2017A Bonds as provided in the Paying Agent Agreement. During the period beginning with the first day on which the 2017A Bonds bear interest in the Short-Term Mode and ending on the effective date of a change to an Interest Mode other than the Short-Term Mode, each 2017A Bond will bear interest at a Bond Interest Term Rate during each Bond Interest Term for such 2017A Bond.

Notice of Election of Short-Term Mode. The Paying Agent will give notice, together with the notice required by the Paying Agent Agreement, by Mail to the Owners of the 2017A Bonds (or, if the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), of a change in Interest Mode to the Short-Term Mode not less than seven days prior to the effective date of the change to the Short-Term Mode. Such notice will state: (i) that the interest rate on the 2017A Bonds will be changed to Bond Interest Term Rates, unless in the case of a change from a Long Rate, Bond Counsel fails to deliver to the Notice Parties a Favorable Opinion of Bond Counsel as to such change on the effective date of such change, in which case the 2017A Bonds will continue to bear interest at the Long Rate in effect immediately prior to such proposed change in Interest Mode; (ii) that during such Short-Term Rate Period, each 2017A Bond will have one or more consecutive Bond Interest Terms during each of which such 2017A Bond will bear a Bond Interest Term Rate; (iii) the effective date of the change to such Short-Term Rate Period; (iv) whether, upon the change to the Short-Term Mode, the 2017A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds, and if the 2017A Bonds will be Liquidity Supported Bonds following the change to the Short-Term Mode, the name of the Liquidity Provider; (v) that the 2017A Bonds are subject to mandatory tender for purchase on the effective date of such Short-Term Rate Period, setting forth the applicable Purchase Price; and (vi) if the 2017A Bonds are no longer in book-entry form, information with respect to the required delivery of bond certificates and payment of the Purchase Price under the Paying Agent Agreement.

Election of Long Mode. Metropolitan, by written direction to the other Notice Parties, may elect, subject to the provisions of the Paying Agent Agreement, to change the Interest Mode of the 2017A Bonds to the Long Mode. Metropolitan may not change the Interest Mode of the 2017A Bonds to a Long Mode unless, as of the effective date of the change, the 2017A Bonds will be Self-Liquidity Bonds or, if the 2017A Bonds will be Liquidity Supported

Bonds, a Liquidity Facility is in effect for the 2017A Bonds in a stated amount sufficient to pay the principal amount of the 2017A Bonds plus an amount sufficient to pay at least 184 days of interest coverage at the Long Rate then in effect. The direction of Metropolitan: (A) will specify the duration of the Long Period (which will be one year or any integral multiple thereof (or as near thereto as reasonably practicable to ensure that the last day of the Long Period complies with clause (C) below)) during which the 2017A Bonds will bear interest at a Long Rate; (B) will specify the effective date of such Long Period, which date will be a Business Day not earlier than the eighth day following the date such direction is given; (C) will specify the last day of such Long Period (which last day will be either the day prior to the maturity date, or a day which both immediately precedes a Business Day and is at least 365 days after the effective date thereof); (D) will specify whether, upon the change to the Long Mode or the commencement of the new Long Period, the 2017A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds; and (E) the Mandatory Purchase Date. Such direction of Metropolitan will be accompanied by a form of the notice to be given by the Paying Agent to the Owners as provided in the Fiscal Agent Agreement.

Notice of Election to or Continuation of Long Mode. The Paying Agent will give notice, together with the notice required by the Paying Agent Agreement, by Mail to the Owners of the 2017A Bonds (or, if the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), of a change in Interest Mode to a (or the establishment of another) Long Period not less than seven days prior to the effective date of the change to the Long Mode. Such notice will state: (i) that the interest rate on the 2017A Bonds will be changed to a Long Rate unless Bond Counsel fails to deliver to the Notice Parties a Favorable Opinion of Bond Counsel as to such change in the Interest Mode or establishment of a new Long Period, in which case: (a) the 2017A Bonds if being changed from a Daily Mode, will continue to bear interest at the Index Tender Rate, Daily Rate, Weekly Rate or Bond Interest Term Rate as in effect immediately prior to such change in Interest Mode; and (b) the 2017A Bonds if already bearing interest at a Long Rate will continue to bear interest at the Long Rate as in effect immediately prior to such proposed establishment of a new Long Period; (ii) the effective date of the change to the Long Period and the last day of such Long Period; (iii) whether, upon the change to the Long Mode, the 2017A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds, and if the 2017A Bonds will be Liquidity Supported Bonds following the change to the Long Mode, the name of the Liquidity Provider; (iv) that the 2017A Bonds are subject to mandatory tender for purchase on such effective date and the Purchase Price applicable thereto; and (v) if the 2017A Bonds are no longer in book-entry form, information with respect to the required delivery of bond certificates and payment of the Purchase Price under the Paying Agent Agreement.

Fixed Interest Rate. On and after the Fixed Rate Date, the 2017A Bonds will bear interest at the Fixed Interest Rate. Not later than the Business Day prior to the Fixed Rate Date (or if such day is not a Business Day, then on the immediately preceding Business Day), the Remarketing Agent will determine the interest rate which in its judgment, having due regard for prevailing financial market conditions, is the interest rate, but not in excess of the interest rate, which would enable the Remarketing Agent to sell all 2017A Bonds on the Fixed Rate Date with a Fixed Interest Rate until maturity at 100% of the principal amount thereof plus accrued interest, if any, with respect thereto, plus a premium; provided, however, that if Metropolitan exercises its option pursuant to the Paying Agent Agreement to have 2017A Bonds remarketed on the Fixed Rate Date at a discount, the Remarketing Agent will establish the Fixed Interest Rate taking into account any such discount specified by Metropolitan. The Remarketing Agent will promptly give telephonic notice to Metropolitan and the Fiscal Agent and Electronic Notice to the Paying Agent of the Fixed Interest Rate.

Bank Bonds. Any Bank Bonds will bear interest at the Bank Bond Rate for the period from the date that the Liquidity Provider purchases such Bank Bonds and continuing until the Bank Bonds have been remarketed or the Liquidity Provider has otherwise elected not to sell the Bank Bonds pursuant to the Paying Agent Agreement. Notwithstanding anything in the Paying Agent Agreement to the contrary, Metropolitan will pay the Liquidity Provider interest on Bank Bonds by wire transfer, on the date on which such interest is due, in accordance with the wire transfer instructions that the Liquidity Provider provides Metropolitan. The Liquidity Provider may sell, assign or dispose of Bank Bonds as more fully provided in the Liquidity Facility. The Paying Agent will note on the Bank Bonds and the Bond Register the requirement of such authorization and the applicability of the provisions of the Paying Agent Agreement to subsequent Owners of the Bank Bonds. Anything in the Paying Agent Agreement to the contrary notwithstanding, Metropolitan will pay principal of and interest on Bank Bonds in the manner, in the amounts and on the dates set forth in the applicable Liquidity Facility.

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

Metropolitan will not sell, assign or otherwise dispose of any District Bonds other than through a remarketing of the District Bonds pursuant to the Paying Agent Agreement; provided, however, that Metropolitan will be permitted to cancel any District Bonds at any time by surrendering such District Bonds to the Fiscal Agent for cancellation pursuant to the terms of the Master Resolution. The District Bonds and the Bond Register maintained by the Paying Agent will be noted indicating the requirement of such prohibition.

Method of Notice of Election to Change Interest Mode. If Metropolitan elects to change the Interest Mode on the 2017A Bonds to a Flexible Index Mode, an Index Mode, a Weekly Mode, a Short-Term Mode or a Long Mode as provided in the Paying Agent Agreement, then the written direction furnished by Metropolitan to the other Notice Parties as required by the Paying Agent Agreement will be made by registered or certified mail or by Electronic Notice. Any such direction of Metropolitan will specify whether the 2017A Bonds are to bear interest at an Index Tender Rate (and in such case, whether in the Flexible Index Mode or the Index Mode), a Weekly Rate, Bond Interest Term Rates or a Long Rate and will be accompanied by the form of the notice required to be given by the Paying Agent pursuant to the Paying Agent Agreement. Notwithstanding anything in the Paying Agent Agreement to the contrary, following the conversion of the 2017A Bonds to a Fixed Interest Rate, Metropolitan may not elect to adjust the interest rate on the 2017A Bonds from a Fixed Interest Rate to any other Interest Mode.

Accrual of Interest

Except as provided in the Paying Agent Agreement with respect to Bank Bonds and District Bonds, each 2017A Bond will bear interest from and including the Interest Accrual Date immediately preceding the date of authentication thereof, or, if such date of authentication is an Interest Accrual Date to which interest on the 2017A Bonds has been paid in full or duly provided for or the date of initial authentication of the 2017A Bonds, from such date of authentication; provided, however, that if, as shown by the records of the Paying Agent, interest on the 2017A Bonds is in default, 2017A Bonds issued in exchange for their respective 2017A Bonds surrendered for registration of transfer or exchange will bear interest from the date to which interest has been paid in full on the 2017A Bonds or, if no interest has been paid on the 2017A Bonds, from the date of the first authentication of 2017A Bonds under the Paying Agent Agreement. Interest on the 2017A Bonds will be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date or otherwise as provided in the Paying Agent Agreement and ending on the day immediately preceding such Interest Payment Date. In any event, interest on the 2017A Bonds will be payable for the final Interest Rate Period to the date on which the 2017A Bonds have been paid in full. Interest will be computed, in the case of 2017A Bonds bearing interest at the Fixed Interest Rate or in the Long Mode, on the basis of a 360-day year consisting of twelve 30-day months, and in the case of 2017A Bonds bearing interest in any other Interest Mode, on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed.

Conversion to Fixed Interest Rate

If the Remarketing Agent fails, refuses or is unable to determine the Fixed Interest Rate prior to the Fixed Rate Date, then the 2017A Bonds will bear interest in the Interest Mode in effect prior to the Fixed Rate Date until such time as Metropolitan elects a new Interest Mode as provided in the Paying Agent Agreement or again exercises its option to convert to a Fixed Interest Rate. If, at the direction of Metropolitan, the Remarketing Agent resumes determination of the Fixed Interest Rate pursuant to the Paying Agent Agreement, the foregoing provisions will apply as if there had been no prior invalidation or failure by the Remarketing Agent to determine the Fixed Interest Rate.

Notice of Conversion to Fixed Interest Rate

If Metropolitan exercises its option to convert the 2017A Bonds to the Fixed Interest Rate, the Paying Agent will give notice of such conversion to the Rating Agencies, any Liquidity Provider, the Remarketing Agent and, as required by the Paying Agent Agreement, by Mail to the Owners of the 2017A Bonds (or, if the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not less than seven days prior to the Fixed Rate Date. Such notice will state: (i) that the interest rate with respect to the 2017A Bonds will be converted to the Fixed Interest Rate; (ii) the Fixed Rate Date; (iii) the date the Fixed Interest Rate is to be established; (iv) that interest on the 2017A Bonds will be payable on each January 1 and July 1 after the Fixed Rate Date; (v) that subsequent to the Fixed Rate Date, the Owners will no longer have the right to deliver the 2017A Bonds to the Paying Agent for purchase; (vi) that all Outstanding 2017A Bonds will be purchased on the Fixed Rate Date, setting forth the applicable Purchase Price; and (vii) that on and after the Fixed Rate Date, the Owners of the 2017A Bonds immediately preceding the Fixed Rate Date will be deemed to have tendered their 2017A Bonds as of the Fixed Rate Date to the Paying Agent. From and after the Fixed Rate Date, such Owners will not be entitled to any payment (including any interest to accrue from and after the Fixed Rate Date) other than the Purchase Price for such 2017A Bonds which will be an amount equal to the principal amount thereof plus accrued interest, if any, with respect thereto, calculated as of the Fixed Rate Date. From and after the Fixed Rate Date, such 2017A Bonds will no longer otherwise be entitled to the specified benefits of the Paying Agent Agreement as further provided therein. The 2017A Bonds will be purchased on the Fixed Rate Date in accordance with and from the sources of funds specified in the Paying Agent Agreement.

Interest Mode Following the Termination of a Purchase Default Period

Upon the termination of a Purchase Default Period, Metropolitan may deliver the 2017A Bonds to new Owners in any Interest Mode that Metropolitan elects (including the Flexible Index Mode and the Index Mode) upon delivery by Metropolitan to the Paying Agent of a Favorable Opinion of Bond Counsel. Metropolitan will evidence its election by delivering to the other Notice Parties the written direction described in the Paying Agent Agreement, which direction will be effective immediately upon delivery without regard to any notice requirement contained therein.

Conversion of 2017A Bonds to Fixed Interest Rate following the Termination of a Purchase Default Period

Upon the termination of a Purchase Default Period, Metropolitan may elect to deliver the 2017A Bonds to new Owners such that they bear interest at a Fixed Interest Rate upon delivery by Metropolitan to the Paying Agent of a Favorable Opinion of Bond Counsel. Metropolitan will evidence its election by delivering to the other Notice Parties the written direction described in the Paying Agent Agreement, which direction will be effective immediately upon delivery without regard to any notice requirement contained therein.

BOOK-ENTRY BONDS

Book-Entry System; Limited Obligation

(a) Except as otherwise provided in the Paying Agent Agreement, the 2017A Bonds will be registered in the form of one fully registered bond in the name of the Securities Depository or its nominee and ownership thereof will be maintained in book-entry form by the Securities Depository for the account of the Participants thereof. Initially, the 2017A Bonds will be registered in the name of Cede & Co., as the nominee of the Securities Depository, and payment of principal and interest for any 2017A Bonds registered in the name of Cede & Co. will be made as provided in the Representation Letter. Except as provided in the Paying Agent Agreement, the 2017A Bonds may be transferred, in whole but not in part, only to the Securities Depository or a nominee of the Securities Depository, or to a successor Securities Depository selected by Metropolitan or to a nominee of such successor Securities Depository. Each global bond will bear a legend substantially to the following effect: “Unless this Bond is presented by an authorized representative of the Securities Depository (as defined in the Master Resolution) to the Paying Agent for registration of transfer, exchange, or payment, and any 2017A Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of the Securities Depository (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized

representative of the Securities Depository), any transfer, pledge, or other use hereof for value or otherwise by or to any person is wrongful inasmuch as the registered owner hereof, Cede & Co., has an interest herein.”

(b) Metropolitan and the Paying Agent have no responsibility or obligation with respect to: (i) the accuracy of the records of the Securities Depository, its nominee or any Participant with respect to any beneficial ownership interest in the 2017A Bonds; (ii) the delivery to any Participant, Beneficial Owner or other Person, other than the Securities Depository, of any notice with respect to the 2017A Bonds; (iii) the payment to any Participant, Beneficial Owner or other Person, other than the Securities Depository, of any amount with respect to the principal of, premium, if any, or interest on, the 2017A Bonds; (iv) any consent given by the Securities Depository or its nominee as Owner; or (v) the selection by the Securities Depository or any Participant of any Beneficial Owners to receive payment if the 2017A Bonds are redeemed in part.

So long as the certificates for the 2017A Bonds issued pursuant to the Resolutions, as supplemented, including by, among other things, the Paying Agent Agreement, are not issued pursuant to clause (c) below, Metropolitan and the Paying Agent may treat the Securities Depository as, and deem the Securities Depository to be, the absolute Owner of such 2017A Bonds for all purposes whatsoever, including without limitation: (i) the payment of principal, premium, if any, and interest on or Purchase Price of such 2017A Bonds; (ii) giving notices of redemption or mandatory tenders and other matters with respect to such 2017A Bonds; and (iii) registering transfers with respect to such 2017A Bonds.

(c) If at any time the Securities Depository notifies Metropolitan that it is unwilling or unable to continue as Securities Depository with respect to the 2017A Bonds or if at any time the Securities Depository is no longer registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and a successor Securities Depository is not appointed by Metropolitan within 90 days after Metropolitan receives notice or becomes aware of such condition, as the case may be, clauses (a) and (b) above will no longer be applicable and Metropolitan will execute and the Paying Agent will authenticate and deliver certificates representing the 2017A Bonds as provided below. In addition, Metropolitan may determine at any time that the 2017A Bonds will no longer be represented by global certificates and that the provisions of clauses (a) and (b) above will no longer apply to such 2017A Bonds. In any such event Metropolitan will execute and the Paying Agent will authenticate and deliver certificates representing the 2017A Bonds as provided below. Certificates for the 2017A Bonds issued in exchange for a global certificate pursuant to the Paying Agent Agreement will be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Participants or otherwise, instructs Metropolitan and the Paying Agent.

(d) Notwithstanding any other provision of the Paying Agent Agreement to the contrary, so long as any 2017A Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal or Redemption Price of and interest on or the Purchase Price of such 2017A Bonds and all notices with respect to such 2017A Bonds will be made and given, respectively, to DTC as provided in the Representation Letter.

(e) In connection with any notice or other communication to be provided to Owners of the 2017A Bonds pursuant to the Paying Agent Agreement by Metropolitan or the Paying Agent with respect to any consent or other action to be taken by Owners of 2017A Bonds, Metropolitan or the Paying Agent, as the case may be, will establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible. Notice to DTC will be given only when DTC is the Owner of the 2017A Bonds.

(f) If Metropolitan purchases, or causes the Paying Agent to purchase, any of the 2017A Bonds, such purchase of the 2017A Bonds is deemed to have occurred upon Metropolitan’s purchase of beneficial ownership interests in the 2017A Bonds from a Participant. If Metropolitan so directs DTC in writing, upon receipt by DTC of notice from Metropolitan and a Participant that a purchase of beneficial ownership interests in the 2017A Bonds has been made by Metropolitan from such Participant, DTC will surrender to the Paying Agent such 2017A Bonds referenced in such notice and, if the principal amount referenced in such notice is less than the principal amount of the 2017A Bonds so surrendered, the Paying Agent will authenticate and deliver to DTC, in exchange for the 2017A Bonds so surrendered, a new 2017A Bond or 2017A Bonds, in Authorized Denominations and in a principal amount equal to the difference between: (i) the principal amount of the 2017A Bonds so surrendered; and (ii) the principal amount referenced in such notice; provided, however, that the foregoing provisions will not apply to any District

Bonds and Metropolitan's ownership and disposition of District Bonds will be governed by the Paying Agent Agreement.

(g) Notwithstanding any provision in the Paying Agent Agreement to the contrary, Metropolitan and the Paying Agent may agree to allow DTC, or its nominee, Cede & Co., to make a notation on any 2017A Bond redeemed or defeased in part to reflect, for informational purposes only, the principal amount and date of any such redemption or defeasance.

(h) Notwithstanding any provision in the Paying Agent Agreement to the contrary, so long as the 2017A Bonds are subject to a system of book-entry transfers pursuant to the Paying Agent Agreement, any requirement for the delivery of the 2017A Bonds to the Paying Agent in connection with a tender pursuant to the Paying Agent Agreement will be deemed satisfied upon the transfer, on the registration books of DTC, of the beneficial ownership interests in such 2017A Bonds tendered for purchase to the account of the Paying Agent, or a Participant acting on behalf of or at the direction of such Paying Agent.

(i) Notwithstanding anything in the Paying Agent Agreement to the contrary, in no event will DTC be permitted to substitute a new nominee in place of Cede & Co. while the 2017A Bonds and a Master Note are outstanding unless DTC substitutes the same nominee in place of Cede & Co. with respect to both the 2017A Bonds and such Master Note. Neither the 2017A Bonds nor any Master Note is subject to transfer by Cede & Co. unless the 2017A Bonds and such Master Note are assigned together to the same transferee.

Transfers Outside Book-Entry System

If at any time ownership of the 2017A Bonds is no longer maintained in book-entry form, the transfer and exchange of the 2017A Bonds will be governed by the provisions of the Resolutions.

Bond Register

The Paying Agent, as agent of the Fiscal Agent with respect to the 2017A Bonds, will keep or cause to be kept at its Corporate Trust Office sufficient books for the registration of, and registration of transfer of, the 2017A Bonds which books will at all times during regular business hours be open to inspection by Metropolitan upon prior reasonable notice. Upon presentation for registration of transfer, the Paying Agent will, as provided in the Resolutions and under such reasonable regulations as it may prescribe, subject to the provisions of the Resolutions and the Paying Agent Agreement, register or register the transfer of the 2017A Bonds, or cause the same to be registered or cause the registration of the same to be transferred, on such books.

REDEMPTION OF 2017A BONDS

Redemption of Bank Bonds

Bank Bonds will be subject to optional and mandatory redemption by Metropolitan on the dates, at the times, in the amounts and in the manner as provided in the applicable Liquidity Facility, if any.

Partial Redemption of 2017A Bonds

Upon surrender of any 2017A Bond to be redeemed in part only, the Paying Agent will issue to the Owner thereof a new bond or bonds representing the unredeemed principal amount of such 2017A Bond surrendered.

REMARKETING AGENT; PAYING AGENT

Remarketing Agent for 2017A Bonds; Qualifications; Resignation and Removal

(a) The initial Remarketing Agent for the 2017A Bonds will be Citigroup Global Markets Inc., with its principal office at 390 Greenwich Street, 2nd Floor, New York, New York 10013, Attention: Short-Term Desk. The Remarketing Agent will perform its duties and obligations as provided in the Remarketing Agreement.

Metropolitan will appoint any successor Remarketing Agent for the 2017A Bonds subject to the conditions set forth in the Paying Agent Agreement. Each successor Remarketing Agent will designate its principal office and signify its acceptance of the duties and obligations imposed upon it under the Paying Agent Agreement by a written instrument of acceptance delivered to Metropolitan (which acceptance may be included in the Remarketing Agreement) under which the Remarketing Agent will agree, particularly, to keep such books and records as are consistent with prudent industry practice and to make such books and records available for inspection by Metropolitan at all reasonable times.

(b) The Remarketing Agent will be a member of the Financial Industry Regulatory Authority having a combined capital stock, surplus and undivided profits of at least \$100,000,000 and authorized by law to perform all the duties imposed upon it by the Paying Agent Agreement. The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Paying Agent Agreement by giving notice to Metropolitan, the Fiscal Agent, the Paying Agent and any Liquidity Provider. Such resignation will take effect on the 60th day after the receipt by Metropolitan of the notice of resignation. Notwithstanding the foregoing, the Remarketing Agent may not resign or be discharged of the duties and obligations created by the Paying Agent Agreement on any date that is less than 30 days before a Scheduled Mandatory Tender Date. The Remarketing Agent may be removed for any reason by Metropolitan upon 30 days' notice to the Remarketing Agent and the other Notice Parties; provided, however, if the Remarketing Agent is in default under the Remarketing Agreement, Metropolitan may immediately remove the Remarketing Agent at any time by written notice given by Metropolitan and delivered to the Remarketing Agent and the other Notice Parties.

Paying Agent for 2017A Bonds; Qualifications of Paying Agent

(a) The initial Paying Agent for the 2017A Bonds will be The Bank of New York Mellon Trust Company, N.A., through its Corporate Trust Office at Corporate Trust Transaction Management Group, 10161 Centurion Parkway North, Jacksonville, Florida 32256. Metropolitan will appoint any successor Paying Agent for the 2017A Bonds, subject to the conditions set forth in the Paying Agent Agreement. Each successor Paying Agent will designate its Corporate Trust Office(s) for delivery of notices and delivery of 2017A Bonds and signify its acceptance of the duties and obligations imposed upon it under the Paying Agent Agreement by a written instrument of acceptance delivered to the Fiscal Agent, Metropolitan, the Liquidity Provider, if any, and the Remarketing Agent. By acceptance of its appointment under the Paying Agent Agreement, the Paying Agent has agreed:

(i) to hold all 2017A Bonds delivered to it pursuant to the Paying Agent Agreement, as agent and bailee of, and in escrow for the benefit of, the respective Owners which have so delivered such 2017A Bonds until moneys representing the Purchase Price of such 2017A Bonds have been delivered to or for the account of or to the order of such Owners;

(ii) if 2017A Bonds bear interest in a Flexible Index Mode or an Index Mode, to perform the actions set forth in or contemplated by the Paying Agent Agreement to be performed by it;

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

(iv) to hold all moneys (without investment or commingling thereof) delivered to it under the Paying Agent Agreement in the Purchase Fund for the purchase of the 2017A Bonds pursuant to the Paying Agent Agreement, as agent and bailee of, and in escrow for the benefit of, the person or entity which will have so delivered such moneys until the 2017A Bonds purchased with such moneys have been delivered to or for the account of such person or entity;

(v) to hold all moneys that any Liquidity Provider delivers to it pursuant to the Paying Agent Agreement and that Metropolitan delivers to it pursuant to the Paying Agent Agreement for the purchase of 2017A Bonds pursuant to the Paying Agent Agreement, as agent and bailee of, and in escrow for the benefit of, the Owners

or former Owners who tender 2017A Bonds to it for purchase until the 2017A Bonds purchased with such moneys have been delivered to or for the account of the Liquidity Provider or Metropolitan, as applicable;

(vi) to establish and maintain a separate segregated trust fund designated as the “Redemption Fund” to hold and invest moneys for the redemption of the 2017A Bonds pursuant to the Paying Agent Agreement until such time as it has been discharged from its duties as Paying Agent;

(vii) to establish and maintain such additional funds and accounts as it may be directed by Metropolitan to carry out its duties and responsibilities under the Paying Agent Agreement, or as it may deem appropriate;

(viii) to hold all 2017A Bonds registered in the name of the new Owners thereof for delivery to the Remarketing Agent; and

(ix) to keep such books and records as are consistent with corporate trust industry practice and to make such books and records available for inspection by Metropolitan, the Fiscal Agent, the Liquidity Provider, if any, and the Remarketing Agent at all reasonable times upon prior reasonable notice.

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

(b) The Paying Agent will be a banking association or corporation with trust powers duly organized under the laws of the United States of America or any state or territory thereof, and authorized by law to perform all the duties imposed upon it by the Paying Agent Agreement, having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and will be subject to supervision or examination by a federal or State banking authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Paying Agent Agreement, the combined capital and surplus of such bank, banking association or trust company will be deemed to be its combined capital and surplus set forth in its most recent report of condition so published. Notwithstanding the foregoing, a bank, banking association or trust company which does not have a combined capital and surplus of at least \$50,000,000 may become a Paying Agent under the Paying Agent Agreement if its obligations thereunder are guaranteed by an affiliate which meets the qualifications of a Paying Agent thereunder and such guaranty is acceptable in form and substance to Metropolitan.

Compensation of Paying Agent

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

Removal of Paying Agent

Metropolitan may, so long as no Event of Default under the Paying Agent Agreement or an “Event of Default” under the Master Resolution has occurred and is continuing, upon 30 days’ notice to the Paying Agent, or the Owners of a majority of the 2017A Bonds Outstanding may by written request at any time upon 30 days’ notice to Metropolitan and the Paying Agent and for any reason, remove the Paying Agent and any successor thereto, and Metropolitan will thereupon appoint a successor or successors thereto, subject to the qualifications set forth in the Paying Agent Agreement. Any removal of the Paying Agent will become effective upon acceptance of appointment by the successor Paying Agent and the transfer of any Liquidity Facility. Upon the effective date of removal of the

Paying Agent, the Paying Agent will deliver any 2017A Bonds and moneys held by it in such capacity to its successor.

Resignation of Paying Agent

The Paying Agent or any successor may at any time resign by giving at least 60 days' written notice to Metropolitan, the Fiscal Agent, any Liquidity Provider and the Remarketing Agent, and by giving notice by Mail to the Owners of its intention to resign and of the proposed date of resignation. Upon receiving such notice of resignation, Metropolitan will promptly appoint a successor Paying Agent by an instrument in writing; provided, however, that in the event Metropolitan fails to appoint a successor Paying Agent within 45 days following receipt of such written notice of resignation, the resigning Paying Agent may petition the appropriate court having jurisdiction to appoint a successor paying agent. Any resignation of the Paying Agent will become effective upon acceptance of appointment by the successor Paying Agent and the transfer of any Liquidity Facility. Upon the effective date of resignation of the Paying Agent, the Paying Agent will deliver any 2017A Bonds and moneys held by it in such capacity to its successor.

Merger or Consolidation

Any company into which the Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it is a party or any company to which the Paying Agent may sell or transfer all or substantially all of its corporate trust business (provided that such company is eligible under the Paying Agent Agreement), will be the successor to the Paying Agent without the execution or filing of any papers or further act, anything in the Paying Agent Agreement to the contrary notwithstanding.

Protection and Rights of the Paying Agent

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

The Paying Agent will not be liable for any error in judgment made by a responsible officer of the Paying Agent, unless it is proved that the Paying Agent was negligent in ascertaining the pertinent facts. The Paying Agent will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the written direction of the Owners of not less than a majority of the Outstanding 2017A Bonds relating to the exercise of any trust or power conferred upon the Paying Agent under the Paying Agent Agreement.

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

The Paying Agent may become an Owner of 2017A Bonds with the same rights it would have if it were not the Paying Agent; may acquire and dispose of 2017A Bonds or other evidences of indebtedness of Metropolitan and

enforce its rights as Owner thereof to the same extent as if it were not the Paying Agent; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of 2017A Bonds, whether or not such committee represents the Owners of a majority of the 2017A Bonds Outstanding.

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

In accepting the appointment as Paying Agent under the Paying Agent Agreement, the Paying Agent acts solely as an agent for Metropolitan and not in its individual capacity and all persons, including without limitation the Owners and Metropolitan, having any claim against the Paying Agent arising from the Paying Agent Agreement will look only to the funds and accounts held by the Paying Agent thereunder for payment except as otherwise provided therein. The Paying Agent does not assume any obligation or relationship of agency or trust for the Owners, except that all funds held by the Paying Agent for the payment of principal of, or premium, if any, or interest on the 2017A Bonds or for the payment of the Purchase Price for the 2017A Bonds will be held in trust for such Owners as set forth in the Paying Agent Agreement and in the 2017A Bonds. Under no circumstances will the Paying Agent be liable in its individual capacity for the obligations evidenced by the 2017A Bonds.

The Paying Agent will not be deemed to have knowledge of any Event of Default under the Paying Agent Agreement or under the Master Resolution unless and until the corporate trust department of the Paying Agent has actual knowledge thereof. Upon the occurrence of any Event of Default the Paying Agent will have no duty or obligation to exercise any right, power or remedy under the Paying Agent Agreement.

The recitals contained in the Paying Agent Agreement and in the 2017A Bonds, except the Paying Agent's certificates of authentication, will be taken as the recitals of Metropolitan, and the Paying Agent assumes no responsibility for the correctness of the same or for the accuracy or completeness of any information set forth or required to be set forth in any offering material, including any Official Statement or other disclosure document, used in connection with the offering for sale or the sale of the 2017A Bonds. The Paying Agent will not be accountable for the use or application by Metropolitan or any other person of any funds which the Paying Agent has released under the Paying Agent Agreement.

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

The Paying Agent has the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to the Paying Agent Agreement and delivered using Electronic Means. "Electronic Means" means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Paying Agent, or another method or system specified by the Paying Agent as available for use in connection with its services under the Paying Agent Agreement); provided, however, that Metropolitan will provide to the Paying Agent an incumbency certificate listing officers with the authority to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate will be amended by Metropolitan, whenever a person is to be added or deleted from the listing. If Metropolitan elects to give the Paying Agent Instructions using Electronic Means and the Paying Agent in its discretion elects to act upon such Instructions, the Paying Agent's understanding of such Instructions will be deemed controlling. Metropolitan has understood and agreed that the Paying Agent cannot determine the identity of the actual sender of such Instructions and that the Paying Agent will conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Paying Agent have been sent by such Authorized Officer. Metropolitan will be responsible for ensuring that only Authorized Officers transmit such Instructions to the Paying Agent and that Metropolitan and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by Metropolitan. The Paying Agent will not be liable for any losses, costs or expenses arising directly or indirectly

from the Paying Agent's reliance upon and compliance with such Instructions notwithstanding the fact that such directions conflict or are inconsistent with a subsequent written instruction. Metropolitan agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Paying Agent, including without limitation the risk of the Paying Agent acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Paying Agent and that there may be more secure methods of transmitting Instructions than the method(s) selected by Metropolitan; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Paying Agent immediately upon learning of any compromise or unauthorized use of the security procedures.

Paying Agent to Act as Set Forth in the Paying Agent Agreement

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

Indemnification

To the extent permitted by law, Metropolitan has agreed to indemnify and save the Paying Agent and its officers, directors, agents and employees harmless from and against all liabilities, costs, suits, judgments, claims, suits and actions brought against it, or to which it is made a party, and from all losses and damages (including the reasonable fees and expenses of counsel) suffered by it as a result thereof, or in connection with or arising from any other document executed in connection with the Paying Agent Agreement, including where and to the extent such claim, suit or action arises out of the actions of any other party to the Paying Agent Agreement, except to the extent such claims arise from the negligence or willful misconduct of the Paying Agent. The foregoing sentence will survive the termination of the Paying Agent Agreement and the earlier removal or resignation of the Paying Agent. If Metropolitan is required to indemnify the Paying Agent as provided in the Paying Agent Agreement, Metropolitan will be subrogated to the rights of the Paying Agent to recover such losses or damages from any other person or entity.

REMARKETING AND PURCHASE OF 2017A BONDS DURING INTEREST MODES OTHER THAN FLEXIBLE INDEX MODE OR INDEX MODE

Notice of 2017A Bonds Delivered for Purchase; Purchase of 2017A Bonds

The Fiscal Agent or Paying Agent will authenticate a new 2017A Bond or 2017A Bonds in an aggregate principal amount equal to the principal amount of 2017A Bonds purchased in accordance with the Paying Agent Agreement, whether or not the 2017A Bonds so purchased are presented by the Owners thereof on the purchase date therefor, bearing a number or numbers not contemporaneously outstanding. Every 2017A Bond authenticated and delivered as provided in the Paying Agent Agreement will be entitled to all of the benefits of the Paying Agent Agreement equally and proportionately with any and all other 2017A Bonds duly issued and authenticated thereunder. The Fiscal Agent or Paying Agent will maintain a record of the 2017A Bonds purchased as provided in the Paying Agent Agreement, together with the names and addresses of the former Owners thereof. The Paying Agent will make the notation on the Bond Register designating as Bank Bonds any 2017A Bonds purchased with moneys from the Liquidity Facility held in trust pursuant to the Paying Agent Agreement or as District Bonds any 2017A Bonds purchased with moneys from Metropolitan held in trust pursuant to the Paying Agent Agreement.

If any 2017A Bonds purchased as provided in the Paying Agent Agreement are not presented to the Paying Agent, the Paying Agent will segregate and hold the moneys for the Purchase Price of such 2017A Bonds in trust for the benefit of the former Owners of such 2017A Bonds, who will, except as provided in the following sentence, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the Purchase Price of such 2017A Bonds, and such 2017A Bonds will no longer be deemed Outstanding. Any moneys which the Paying Agent will segregate and hold in trust for the payment of the Purchase Price of any 2017A Bond and remaining unclaimed for two years after the date of purchase will, upon Metropolitan's written request to the Paying Agent, be paid to Metropolitan (without liability for interest). After the payment of such unclaimed moneys to Metropolitan, the

former Owner of such 2017A Bond will look only to Metropolitan for the payment thereof, and Metropolitan will not be liable for any interest thereon and will not be regarded as a trustee of such moneys.

Remarketing of 2017A Bonds; Notice of Interest Rates

(a) Notice of Interest Rates and Purchasers. The Remarketing Agent will determine the rate of interest (or, in the case of a tender for purchase in connection with a change of Interest Mode to the Flexible Index Mode or the Index Mode, the minimum fixed per annum interest rate spread to SIFMA) to be borne by the 2017A Bonds during each Interest Rate Period (other than for Bank Bonds and District Bonds) and will furnish to Metropolitan, the Paying Agent and the Fiscal Agent on the Business Day immediately after the date of determination each rate of interest (or interest rate spread) so determined by Electronic Notice, promptly confirmed in writing; provided, that, during the Daily Mode, the Remarketing Agent may provide each effective Daily Rate relating to each day in a weekly report prepared and provided on the last Business Day of each week to the Notice Parties.

(b) Notice of Purchasers. In the case of: (i) 2017A Bonds tendered pursuant to the Paying Agent Agreement, the Remarketing Agent will give notice to the Fiscal Agent and the Paying Agent by Electronic Notice no later than 4:00 p.m. (New York City time) on the Business Day preceding the purchase date therefor; and (ii) (A) Liquidity Supported Bonds tendered pursuant to the Paying Agent Agreement; and (B) Self-Liquidity Bonds in the Daily Mode tendered pursuant to the Paying Agent Agreement, the Remarketing Agent will give notice to the Fiscal Agent and the Paying Agent by Electronic Notice no later than 11:30 a.m. (New York City time) on the purchase date therefor, in each case: (x) specifying the aggregate principal amount of 2017A Bonds, if any, sold by it; and (y) providing a list of such purchasers showing the names and denominations in which the Paying Agent will register such 2017A Bonds in the Bond Register.

Delivery of 2017A Bonds

2017A Bonds purchased with remarketing proceeds will be made available by the Paying Agent to the Remarketing Agent for delivery to the purchasers thereof against payment therefor. Unless otherwise provided in the applicable Liquidity Facility, the Paying Agent will hold 2017A Bonds purchased with from the Liquidity Facility as agent of any Liquidity Provider. Unless Metropolitan otherwise specifies in a written direction, the Paying Agent will hold 2017A Bonds purchased with moneys from Metropolitan as agent of Metropolitan. Except as provided in the Paying Agent Agreement, 2017A Bonds delivered as provided in the Paying Agent Agreement will be registered in the manner directed by the recipient thereof.

Delivery of Proceeds of Sale

The proceeds of the sale by the Remarketing Agent of any 2017A Bonds delivered to it by, or held by it for the account of, the Fiscal Agent or the Liquidity Provider, will be turned over to the Paying Agent by 11:30 a.m. (New York City time), on the Business Day on which 2017A Bonds are to be purchased pursuant to the Paying Agent Agreement.

Demand of Metropolitan to Purchase Self-Liquidity Bonds

By 11:30 a.m. (New York City time) on the purchase date, the Paying Agent will notify Metropolitan by Electronic Notice as to the aggregate Purchase Price of tendered Self-Liquidity Bonds that Metropolitan is required to purchase and to make a demand for the purchase of such Self-Liquidity Bonds such that the Paying Agent will receive amounts sufficient to pay the Purchase Price of all tendered Self-Liquidity Bonds no later than 12:30 p.m. (New York City time) on the purchase date. If Metropolitan receives from the Paying Agent by Electronic Notice a demand for the purchase of Self-Liquidity Bonds pursuant to the Paying Agent Agreement no later than 11:30 a.m. (New York City time) on a purchase date, then Metropolitan has covenanted that it will deliver to the Paying Agent amounts sufficient for the Paying Agent to pay the Purchase Price of all tendered Self-Liquidity Bonds no later than 12:30 p.m. (New York City time) on the purchase date. Upon the receipt of amounts from Metropolitan, the Paying Agent will deposit an amount equal to the Purchase Price of all tendered Self-Liquidity Bonds in the District Account of the Purchase Fund. In determining the amount of any such Purchase Price then due, the Paying Agent

will not take into consideration any Purchase Price due on any District Bonds to the extent identified to the Paying Agent and the Paying Agent will make no demand to Metropolitan to pay the Purchase Price of any District Bonds to the extent identified to the Paying Agent. By 2:30 p.m. (New York City time) the Paying Agent will purchase the tendered Self-Liquidity Bonds, and remit to Metropolitan such funds in the District Account which the Paying Agent did not use to purchase the tendered 2017A Bonds. The foregoing provision does not apply to any Liquidity Supported Bonds.

Notice of Remarketing of Bank Bonds or District Bonds; Election Not to Sell Bank Bonds or District Bonds

From and after the date on which 2017A Bonds become Bank Bonds or District Bonds, the Remarketing Agent will continue to use its best efforts to remarket the Bank Bonds or District Bonds, as applicable, at a price which will equal the principal amount thereof plus accrued and unpaid interest thereon to such date. The Liquidity Provider (or any subsequent Owner of a Bank Bond), in the case of Bank Bonds, and Metropolitan, in the case of District Bonds, will have the right, by written notice or by telephonic notice, promptly confirmed in writing to the Remarketing Agent, the Fiscal Agent and the Paying Agent, to elect not to sell the Bank Bonds or the District Bonds, as applicable, or any portion thereof. If: (a) the Remarketing Agent sells Bank Bonds or District Bonds or the Liquidity Provider or Metropolitan elects not to sell Bank Bonds or District Bonds, as applicable, in each case, pursuant to the Paying Agent Agreement; (b) the Paying Agent, on behalf of the Liquidity Provider or Metropolitan, as applicable, receives the Purchase Price for such Bank Bonds or District Bonds (unless the Liquidity Provider or Metropolitan elect not to sell such Bank Bonds or District Bonds); and (c) solely in the case of Bank Bonds, the Liquidity Provider provides written notice the Paying Agent that it reinstates the Liquidity Facility then in effect in the principal amount equal to such Bank Bonds, then such 2017A Bonds will cease to be Bank Bonds or District Bonds, as applicable, and will bear interest as provided in the Paying Agent Agreement for 2017A Bonds other than Bank Bonds or District Bonds. Notwithstanding anything in the Paying Agent Agreement to the contrary, if Metropolitan purchased any District Bonds in whole or in part from proceeds from any Revolving Credit Facility, Metropolitan has no right to elect not to sell District Bonds pursuant to the Paying Agent Agreement unless Metropolitan delivers a certificate to the Paying Agent (which certificate will be dated no earlier than five days before the date on which District Bonds are to be sold pursuant to the Paying Agent Agreement) that, as of the date of the certificate, there were no amounts then outstanding under any such Revolving Credit Facility.

LIQUIDITY FACILITIES AND ALTERNATE LIQUIDITY FACILITIES

Liquidity Facilities and Alternate Liquidity Facilities for the 2017A Bonds Designated as Liquidity Supported Bonds

On the effective date of any designation of the 2017A Bonds as Liquidity Supported Bonds (either in connection with a change in the Interest Mode of the 2017A Bonds to the Weekly Mode, Short-Term Mode or Long Mode or pursuant to a change from Self-Liquidity Bonds to Liquidity Supported Bonds), Metropolitan will cause to be executed and delivered to the Paying Agent a Liquidity Facility providing for the purchase, in accordance with the terms thereof, of the 2017A Bonds, which are tendered for purchase as provided in the Paying Agent Agreement and not remarketed. In connection with the execution and delivery of a Liquidity Facility, Metropolitan will satisfy all of the conditions set forth in the Paying Agent Agreement. Notwithstanding the foregoing, any Liquidity Facility (and any Alternate Liquidity Facility) may provide for conditions under which the Liquidity Provider's obligation to purchase Liquidity Supported Bonds are automatically terminated or suspended. Metropolitan has directed the Paying Agent to take such actions under any Liquidity Facility then in effect as may be required to cause the Liquidity Provider to purchase tendered 2017A Bonds which are Liquidity Supported Bonds for which there are not sufficient remarketing proceeds from the sale of such 2017A Bonds to purchase such tendered 2017A Bonds. During any Flexible Index Mode or Index Mode or at any time on or after the Fixed Rate Date, Metropolitan will have no obligation to provide or to maintain a Liquidity Facility. Further, Metropolitan has no obligation to provide or maintain a Liquidity Facility for the 2017A Bonds during any Daily Mode in which the 2017A Bonds have been designated as Self-Liquidity Bonds.

(a) At any time during which any Liquidity Facility is in force and effect, Metropolitan may deliver an Alternate Liquidity Facility satisfying the requirements of the Paying Agent Agreement; provided, however, that Metropolitan delivers any Alternate Liquidity Facility no later than five days before the scheduled expiration date of

the Liquidity Facility then in effect. In connection with the execution and delivery of an Alternate Liquidity Facility, Metropolitan will satisfy all of the conditions set forth in the Paying Agent Agreement.

(b) If during any period in which the 2017A Bonds bear interest in the Daily Mode: (i) Metropolitan changes the then applicable designation of the 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds (either in connection with a change in the Interest Mode of the 2017A Bonds to a Weekly Mode, Short-Term Mode or Long Mode or pursuant to Paying Agent Agreement); or (ii) Metropolitan delivers an Alternate Liquidity Facility and otherwise satisfies the requirements of the Paying Agent Agreement; or (iii) Metropolitan changes the Interest Mode of the 2017A Bonds to the Flexible Index Mode or the Index Mode or converts the 2017A Bonds to a Fixed Interest Rate, then Metropolitan will surrender the Liquidity Facility previously in effect on the effective date of the change, the effective date of the Alternate Liquidity Facility or the conversion, as applicable; provided, however, that if the 2017A Bonds are subject to mandatory tender for purchase under the Paying Agent Agreement upon such change or upon the effectiveness of such Alternate Liquidity Facility, then the Paying Agent will surrender such Liquidity Facility only after the Purchase Price of all 2017A Bonds tendered on such date has been fully paid. The Paying Agent will comply with the procedure set forth in the Liquidity Facility relating to the termination thereof.

Conditions to the Effectiveness of Liquidity Facilities and Alternate Liquidity Facilities for the 2017A Bonds

If: (a) in connection with a change in the Interest Mode for the 2017A Bonds to the Weekly Mode, Short-Term Mode or Long Mode; or (b) at any time while the 2017A Bonds bear interest in the Daily Mode and are designated as Liquidity Supported Bonds; or (c) upon a change in the then applicable designation of 2017A Bonds in the Daily Mode from Self-Liquidity Bonds to Liquidity Supported Bonds, there will be delivered to the Paying Agent: (i) a Liquidity Facility or an Alternate Liquidity Facility covering the 2017A Bonds which contains administrative provisions reasonably satisfactory to the Paying Agent; (ii) a Favorable Opinion of Bond Counsel; (iii) an opinion of counsel satisfactory to the Remarketing Agent to the effect that such Liquidity Facility or such Alternate Liquidity Facility is a valid and enforceable obligation of the proposed issuer or provider thereof; and (iv) all information required to give the notice of mandatory tender for purchase of the 2017A Bonds as and if required by the Paying Agent Agreement, then the Paying Agent will accept such Liquidity Facility or such Alternate Liquidity Facility.

Notice by Paying Agent to Reduce Liquidity Facility

If any Liquidity Supported Bonds are redeemed, defeased or otherwise retired in whole or in part, the Paying Agent, at the written direction of Metropolitan, will give notice to the Liquidity Provider in the manner required by the Liquidity Facility to reflect such reduction in the principal amount of the 2017A Bonds as a result of such redemption, defeasance or retirement and no notice to the Owners of the 2017A Bonds of such reduction, nor any purchase thereof under the Paying Agent Agreement will occur as a result thereof.

LIQUIDITY SUPPORTED BONDS AND SELF-LIQUIDITY BONDS

Designation and Consequences of 2017A Bonds as Liquidity Supported Bonds or Self-Liquidity Bonds

(a) While the 2017A Bonds bear interest in the Daily Mode, such 2017A Bonds are Variable Rate Bonds under the Twenty-Second Supplemental Indenture. Metropolitan will designate all 2017A Bonds bearing interest in the Daily Mode to be either Self-Liquidity Bonds or Liquidity Supported Bonds. As provided in the Paying Agent Agreement, upon the date of delivery of the 2017A Bonds in the Daily Mode, Metropolitan has initially designated the 2017A Bonds to be Liquidity Supported Bonds. The 2017A Bonds will continue to be Liquidity Supported Bonds unless and until: (i) Metropolitan changes the 2017A Bonds to Self-Liquidity Supported Bonds either pursuant to the Paying Agent Agreement or in connection with a change in the Interest Mode on the 2017A Bonds to the Weekly Mode, Short-Term Mode or Long Mode; (ii) Metropolitan changes the Interest Mode of the 2017A Bonds to the Flexible Index Mode or the Index Mode; or (iii) Metropolitan converts the interest rate on the 2017A Bonds to a Fixed Interest Rate. In connection with any change in the Interest Mode of the 2017A Bonds to the Weekly Mode, Daily Mode (from a subsequent different Interest Mode), Short-Term Mode or Long Mode, Metropolitan will designate the 2017A Bonds either as Liquidity Supported Bonds or as Self-Liquidity Bonds in the written direction required pursuant to the Paying Agent Agreement.

(b) While 2017A Bonds bear interest in the Daily Mode and are Liquidity Supported Bonds: (i) Metropolitan has no liability to purchase Liquidity Supported Bonds tendered pursuant to the Paying Agent Agreement from any of its assets other than remarketing proceeds or amounts drawn upon the Liquidity Facility; and (ii) the 2017A Bonds will be subject to the provisions that are described under the caption “LIQUIDITY FACILITIES AND ALTERNATE LIQUIDITY FACILITIES.”

(c) While 2017A Bonds bear interest in the Daily Mode and are Self-Liquidity Bonds: (i) Metropolitan will be irrevocably committed and obligated to pay the Purchase Price of all 2017A Bonds tendered pursuant to the Paying Agent Agreement on the applicable purchase date therefor; (ii) the 2017A Bonds will not be subject to the provisions that are described under the caption “LIQUIDITY FACILITIES AND ALTERNATE LIQUIDITY FACILITIES;” and (iii) the 2017A Bonds will be subject to the provisions that are described in the Paying Agent Agreement.

Change of 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds

(a) With respect to any 2017A Bonds bearing interest in the Daily Mode that are at that time designated as Liquidity Supported Bonds, Metropolitan may elect to change the 2017A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds by delivering a written direction to the other Notice Parties not later than ten days before the effective date of the change to Self-Liquidity Bonds. The effective date of the change to Self-Liquidity Bonds must be a Business Day. The written direction of Metropolitan will specify: (1) the effective date of the change to Self-Liquidity Bonds; and (2) if applicable, the date of delivery for the 2017A Bonds to be purchased (if other than the effective date) pursuant to the Paying Agent Agreement. In addition, together with any such written direction, Metropolitan will include a form of notice that the Paying Agent is required to give to the Owners of the Bonds as provided in the Paying Agent Agreement. From and after the effective date of the change to Self-Liquidity Bonds, the 2017A Bonds will be Self-Liquidity Bonds unless and until: (i) Metropolitan changes the 2017A Bonds to Liquidity Supported Bonds; (ii) Metropolitan changes the Interest Mode for the 2017A Bonds to the Flexible Index Mode or the Index Mode; or (iii) the Fixed Rate Date.

(b) If Metropolitan elects to change 2017A Bonds in the Daily Mode from Liquidity Supported Bonds to Self-Liquidity Bonds, then on or before the effective date of the change, Metropolitan will cause to be provided to the other Notice Parties written confirmation from each of the Rating Agencies that after giving effect to such change each Rating Agency will assign a short-term rating to the 2017A Bonds in the highest short-term ratings category (without regard to subcategories). If Metropolitan fails to deliver such written confirmation from each of the Rating Agencies, then the 2017A Bonds will not change from Liquidity Supported Bonds to Self-Liquidity Bonds. If notice of such change has been given to the Owners of the 2017A Bonds as provided in the Paying Agent Agreement and Metropolitan fails to deliver such written confirmation, then the 2017A Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of such change as provided in the Paying Agent Agreement; provided, however, that, notwithstanding anything in the Paying Agent Agreement to the contrary, Metropolitan has no liability or obligation to pay the Purchase Price of 2017A Bonds so tendered.

(c) The Paying Agent will give notice by Mail to the Owners of the 2017A Bonds (or, if the 2017A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice), together with the notice required by the Paying Agent Agreement, of a change to Self-Liquidity Bonds not less than seven days before the effective date of the change. The notice will state: (i) the effective date of the change from Liquidity Supported Bonds to Self-Liquidity Bonds; and (ii) if applicable, that the 2017A Bonds are subject to mandatory tender for purchase on such effective date, setting forth the applicable Purchase Price.

EVENT OF DEFAULT AND PURCHASE DEFAULT PERIOD

Event of Default

If Metropolitan fails to pay the Purchase Price of 2017A Bonds under the Paying Agent Agreement, then such failure will be an “Event of Default” under the Paying Agent Agreement and a Purchase Default Period will commence. Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of 2017A Bonds

under the Paying Agent Agreement will not constitute an “Event of Default” under the Master Resolution or under any other provision of the Resolutions.

Purchase Default Period

During a Purchase Default Period, the following will apply: (a) all of the 2017A Bonds will bear interest at the Purchase Default Rate; (b) the 2017A Bonds will not be subject to optional redemption pursuant to the Paying Agent Agreement; (c) the 2017A Bonds will remain subject to redemption from Mandatory Sinking Account Payments pursuant to the Paying Agent Agreement; (d) the 2017A Bonds will be subject to special mandatory redemption on the dates and in the principal amounts set forth in the Paying Agent Agreement; (e) Metropolitan may not require the Owners to tender 2017A Bonds for purchase pursuant to the provisions of the Paying Agent Agreement; (f) Metropolitan will continue to be obligated to purchase all of the 2017A Bonds tendered on the Scheduled Mandatory Tender Date at the Purchase Price, notwithstanding, and in addition to, the obligation of Metropolitan to redeem Outstanding 2017A Bonds from Special Mandatory Redemption Payments pursuant to the Paying Agent Agreement; and (g) if Metropolitan pays the Purchase Price, on any date, of all or any portion of the 2017A Bonds, the Owners of such 2017A Bonds will be obligated to sell and deliver such 2017A Bonds to Metropolitan as set forth in the Paying Agent Agreement.

Purchase and Sale of 2017A Bonds During Purchase Default Period

During a Purchase Default Period, Metropolitan will pay the Purchase Price of any 2017A Bonds by delivering the Purchase Price for 2017A Bonds to be purchased to the Paying Agent at its Corporate Trust Office on any Business Day.

If on any Business Day Metropolitan pays the Purchase Price with respect to only a portion of the 2017A Bonds, then Metropolitan will purchase 2017A Bonds from each of the Owners on a pro rata basis, calculated based on the Outstanding principal amount of the 2017A Bonds held by each Owner compared to the total amount of 2017A Bonds Outstanding on such Business Day.

From and after the Business Day on which Metropolitan delivers the Purchase Price of all or any portion of the 2017A Bonds to the Paying Agent (each such date, a “**Purchase Default Period Purchase Date**”), such 2017A Bonds will be deemed purchased by Metropolitan, no interest will accrue on such 2017A Bonds and the Owners thereof will have no rights under the Resolutions other than to receive payment of the Purchase Price thereof.

Termination of Purchase Default Period

During any Purchase Default Period, upon the purchase by Metropolitan of all 2017A Bonds, the Event of Default under the Paying Agent Agreement will be cured and the Purchase Default Period attributable to such Event of Default will terminate on the date next preceding the date on which such purchase occurs.

Bondholders’ Committee

In addition to any rights that the Owners of the 2017A Bonds may have under the Resolutions, if an Event of Default has occurred and is continuing under the Paying Agent Agreement, the Owners of 25% in aggregate principal amount of the 2017A Bonds then Outstanding may call a meeting of the Owners of the 2017A Bonds for the purpose of electing a Bondholders’ committee (a “**Bondholders’ Committee**”). At such meeting, the Owners of not less than a majority in aggregate principal amount of 2017A Bonds must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders’ Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof: (a) will prescribe the manner in which the successors of the persons elected to the Bondholders’ Committee will be elected or appointed; (b) may prescribe rules and regulations governing the exercise by the Bondholders’ Committee of the power conferred upon it in the Paying Agent Agreement; and (c) may provide for the termination of the existence of the Bondholders’ Committee. The

Bondholders' Committee has been declared to be trustee for the Owners of all of the 2017A Bonds then Outstanding, and is empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Paying Agent Agreement on any Owner, provided, however, that whenever any provision of the Paying Agent Agreement requires the consent, approval or concurrence of the Owners of a specified percentage of principal of the Outstanding 2017A Bonds, in order to exercise the right or power conferred in the Paying Agent Agreement on the Owners to which such percentage obtains, the Bondholders' Committee either will have been elected by or their election will have been approved by or concurred by, and such committee will then represent, the Owners of such specified percentage of the principal amount of the Outstanding 2017A Bonds. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chair and other members, will be filed with the Authorized Representative.

Other Remedies, Rights of Owners of the 2017A Bonds

Upon the occurrence and continuation of an Event of Default, the Owners of the 2017A Bonds may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Paying Agent Agreement.

The rights of the Owners of the 2017A Bonds pursuant to the Paying Agent Agreement are in addition to any rights that the Owners of the 2017A Bonds may have under the Resolutions.

Notwithstanding anything in the Paying Agent Agreement to the contrary, no Owner of 2017A Bonds have the right to declare the principal and accrued interest on any 2017A Bonds to be immediately due and payable except as provided in the Resolutions.

No remedy conferred by the Paying Agent Agreement upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy will be cumulative and will be in addition to any other remedy given to the Owners of the 2017A Bonds under the Paying Agent Agreement and under the Resolutions or now or later existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or be construed to be a waiver of any such default or Event of Default or acquiescence in the Paying Agent Agreement, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Paying Agent Agreement by the Owners of the 2017A Bonds will extend to or affect any subsequent default or Event of Default or impair any rights or remedies consequent thereon.

MODIFICATION OR AMENDMENT OF PAYING AGENT AGREEMENT

Amendments Permitted with Consent of the Owners

(a) The Paying Agent Agreement and the rights and obligations of Metropolitan, the Owners of the 2017A Bonds, the Paying Agent and the Fiscal Agent may be modified or amended from time to time and at any time by the execution and delivery by Metropolitan and the Paying Agent of a Supplemental Agreement so long as the Owners of a majority in aggregate principal amount of the 2017A Bonds then Outstanding consent to such Supplemental Agreement in writing; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any 2017A Bonds of any particular maturity remain Outstanding, the consent of the Owners of such 2017A Bonds will not be required and such 2017A Bonds will not be deemed to be Outstanding for the purpose of any calculation of 2017A Bonds Outstanding under the Paying Agent Agreement.

(b) No such modification or amendment may: (i) extend the fixed maturity of any 2017A Bond, reduce the principal amount thereof, extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any 2017A Bond, reduce the rate of interest thereon, extend the time of payment of interest thereon or reduce any premium payable upon the redemption thereof, without the consent of

the Owner of each 2017A Bond so affected; (ii) reduce the aforesaid percentage of principal amount the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the 2017A Bonds then Outstanding; or (iii) modify any rights or duties of the Paying Agent or the Fiscal Agent without its consent.

(c) It is not necessary for the consent of the Owners to approve the particular form of any Supplemental Agreement, but it will be sufficient if such consent approves the substance thereof. Promptly after the execution and delivery of any Supplemental Agreement pursuant to the Paying Agent Agreement, the Paying Agent will mail a notice provided by Metropolitan, setting forth in general terms the substance of any Supplemental Agreement to the Owners of the 2017A Bonds at the addresses shown on the Bond Register. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity or effectiveness of any such Supplemental Agreement.

Amendments Not Requiring Owner Consent

(a) The Paying Agent Agreement and the rights and obligations of Metropolitan, the Paying Agent, the Fiscal Agent and the Owners of the 2017A Bonds may also be modified or amended from time to time and at any time by a Supplemental Agreement, which Metropolitan and the Paying Agent may execute and deliver without the consent of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of Metropolitan in the Paying Agent Agreement thereafter to be observed, to pledge or assign additional security for the 2017A Bonds (or any portion thereof) or to surrender any right or power therein reserved to or conferred upon Metropolitan, in each case which do not materially and adversely affect the interests of the Owners of any of the 2017A Bonds;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Paying Agent Agreement, or in regard to matters or questions arising under the Paying Agent Agreement, as Metropolitan may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of any of the 2017A Bonds;

(iii) to modify, amend or supplement the Paying Agent Agreement in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, and to add do other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which do not materially and adversely affect the interests of the Owners of any of the 2017A Bonds;

(iv) to maintain the exclusion of interest on the 2017A Bonds from gross income for purposes of federal income taxation or to make such provisions as are necessary or appropriate to ensure such exclusion; and

(v) for any other purpose that does not materially and adversely affect the interests of the Owners of any of the 2017A Bonds, as evidenced by the opinion of counsel delivered pursuant to the Paying Agent Agreement.

(b) Notwithstanding any provision of the Paying Agent Agreement to the contrary, any provision or term of the Paying Agent Agreement may be modified or amended without the consent of the Owners of the 2017A Bonds if: (a) such amendment becomes effective upon the Mandatory Purchase Date in connection with any mandatory tender for purchase of the 2017A Bonds pursuant to the Paying Agent Agreement; (b) such amendment does not affect the right of the tendering Owners to receive the payment of the Purchase Price payable upon such mandatory tender for purchase of the 2017A Bonds; and (c) the content of the amendment is included in a notice of mandatory tender for purchase which the Paying Agent delivers to the Owners pursuant to the Paying Agent Agreement. In executing, or accepting the additional trusts created by, any amendment permitted by the Paying Agent Agreement, the Paying Agent will be entitled to receive, and will be fully protected in relying upon, an opinion of counsel stating that the execution of such amendment is authorized or permitted by the Paying Agent Agreement and complies with the terms thereof. The Paying Agent may, but is not obligated to, enter into any such

amendment which affects the Paying Agent's own rights, duties or immunities under the Paying Agent Agreement or otherwise.

Effect of Supplemental Agreement

From and after the time any Supplemental Agreement becomes effective pursuant to the Paying Agent Agreement, the Paying Agent Agreement will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Paying Agent Agreement of Metropolitan, the Paying Agent, the Fiscal Agent, the Remarketing Agent and all Owners of 2017A Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all of the terms and conditions of any such Supplemental Agreement will be deemed to be part of the terms and conditions of the Paying Agent Agreement for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds

2017A Bonds delivered after any Supplemental Agreement becomes effective pursuant to the Paying Agent Agreement may, and if the Paying Agent so determines will, bear a notation by endorsement or otherwise in form approved by Metropolitan and the Paying Agent as to any modification or amendment provided for in such Supplemental Agreement, and, in that case, upon demand of the Owner of any 2017A Bond Outstanding at the time of such execution and presentation of such Owner's 2017A Bond for such purpose at the Corporate Trust Office of the Paying Agent, a suitable notation will be made on such 2017A Bond. If a Supplemental Agreement so provides, new 2017A Bonds so modified as to conform, in the opinion of Metropolitan and the Paying Agent, to any modification or amendment contained in such Supplemental Agreement, will be prepared and executed by Metropolitan and authenticated by the Paying Agent, and upon demand of the Owners of any 2017A Bonds then Outstanding will be exchanged at the Corporate Trust Office of the Paying Agent, without cost to any Owner, for 2017A Bonds then Outstanding, upon surrender for cancellation of such 2017A Bonds, in equal aggregate principal amounts, tenor and maturity.

Amendment of Particular Bond

The provisions of the Paying Agent Agreement do not prevent any Owner from accepting any amendment as to the particular 2017A Bonds held by such Owner, provided that due notation thereof is made on such 2017A Bonds.

MISCELLANEOUS

Liability of Metropolitan Limited to Net Operating Revenues

(a) Notwithstanding anything contained in the Paying Agent Agreement to the contrary, Metropolitan is not required to advance any moneys derived from any source other than the Net Operating Revenues for any of the purposes in the Paying Agent Agreement mentioned, whether for the payment of the Purchase Price, principal, or Redemption Price of or interest on the 2017A Bonds or for any other purpose of the Paying Agent Agreement. If the 2017A Bonds are in the Flexible Index Mode, the Master Note will evidence Metropolitan's obligation to make payment of the Purchase Price, principal, or Redemption Price of or interest on the 2017A Bonds from the sources and to the extent described in the Paying Agent Agreement, but will not constitute a separate obligation of Metropolitan to make such payment. Any payments by Metropolitan of the Purchase Price, principal, or Redemption Price of or interest on the 2017A Bonds will constitute a payment under and pursuant to the Master Note, and Metropolitan will be credited for such payments under the Master Note. In no event will Metropolitan be obligated to make payments under the Master Note other than the payments Metropolitan is obligated to make pursuant to and in accordance with the terms of the 2017A Bonds.

(b) The general fund of Metropolitan is not liable for the payment of any Purchase Price, principal, or Redemption Price of or interest on the 2017A Bonds or the Master Note, nor is the credit or taxing power of Metropolitan pledged for the payment of any Purchase Price, principal, or Redemption Price of or interest on the

2017A Bonds or the Master Note. No Owner of any 2017A Bond or holder of the Master Note may compel the exercise of the taxing power by Metropolitan or the forfeiture of any of its property.

Investment of Amounts Held under Paying Agent Agreement

(a) Moneys held in Funds and Accounts (other than moneys held in the Purchase Fund, which will be held uninvested) will be invested and reinvested as directed in writing by the Treasurer solely in Authorized Investments and consistent with Metropolitan's investment policy then in effect, subject to the restrictions set forth in the Master Resolution and the Paying Agent Agreement and subject to the investment restrictions imposed upon Metropolitan by the laws of the State. The Treasurer will direct such investments by written certificate. The Paying Agent has no responsibility or liability in respect of the selection of any investment made in accordance with the instructions of the Treasurer or his authorized designee.

The Paying Agent has no obligation to invest and reinvest any cash held by it under the Paying Agent Agreement in the absence of timely and specific written investment direction from Metropolitan. In no event will the Paying Agent be liable for investment losses incurred thereon. The Paying Agent may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Paying Agent Agreement. The Paying Agent may rely on the investment directions of Metropolitan as to both the suitability and legality of the directed investments. Metropolitan acknowledges that regulations of the Comptroller of the Currency grant Metropolitan the right to receive brokerage confirmations of the security transactions as they occur, at no additional cost. To the extent permitted by law, Metropolitan has specifically waived compliance with 12 C.F.R. 12 and has notified the Paying Agent that no brokerage confirmations need be sent relating to the security transactions as they occur.

(b) Investments in any Fund or Account will be deemed at all times to be a part of such Fund or Account, and the interest accruing thereon and any profit realized from such investment will be credited to such Fund or Account and any loss resulting from such investment will be charged to such Fund or Account.

Defeasance

The 2017A Bonds may be defeased in whole or in part upon satisfaction of the provisions of the Master Resolution, provided that, in addition to the requirements of such provisions, in connection with the defeasance of the 2017A Bonds bearing interest at a Daily Mode or a Weekly Mode there will be provided to the Paying Agent written evidence from each Rating Agency to the effect that the defeasance of such 2017A Bonds, in and of itself, will not result in the withdrawal or reduction of the rating short-term rating then assigned to such 2017A Bonds. During any period in which the 2017A Bonds are in the Flexible Index Mode and a Master Note is in effect to evidence the 2017A Bonds, a defeasance of all or any portion of the 2017A Bonds will result in a like defeasance of the Master Note (in whole or in part) evidencing such 2017A Bonds.

Parties in Interest

Except as otherwise specifically provided in the Paying Agent Agreement, nothing in the Paying Agent Agreement expressed or implied is intended or will be construed to confer upon any person, firm or corporation other than Metropolitan, the Paying Agent, the Fiscal Agent, the Remarketing Agent, any Liquidity Provider and the Owners any right, remedy or claim under or by reason of the Paying Agent Agreement, which is intended to be for the sole and exclusive benefit of Metropolitan, the Paying Agent, the Fiscal Agent, the Remarketing Agent, any Liquidity Provider and the Owners.

Severability

In case any one or more of the provisions of the Paying Agent Agreement, or of any 2017A Bonds issued thereunder will, for any reason, be held to be illegal or invalid, such illegality or invalidity will not affect any other provisions of the Paying Agent Agreement, or of the 2017A Bonds, and the Paying Agent Agreement and any 2017A Bonds issued thereunder will be construed and enforced as if such illegal or invalid provisions had not been contained therein.

No Personal Liability of Metropolitan Officials; Limited Liability of Metropolitan to Owners of 2017A Bonds

No covenant or agreement contained in the 2017A Bonds or in the Paying Agent Agreement will be deemed to be the covenant or agreement of any present or future official, officer, agent or employee of Metropolitan in his individual capacity, and neither the members of the Board of Directors of Metropolitan nor any person executing the 2017A Bonds will be liable personally on the 2017A Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

(a) Except for the payment when due of the payments required under the Paying Agent Agreement and the observance and performance of the other agreements, conditions, covenants and terms required to be performed by it contained in the Paying Agent Agreement, Metropolitan has no obligation or liability to the Owners with respect to the Paying Agent Agreement or the preparation, execution, delivery, transfer, exchange or cancellation of the 2017A Bonds or the receipt, deposit or disbursement of the payments by the Paying Agent, or with respect to the performance by the Paying Agent of any obligation required to be performed by it contained in the Paying Agent Agreement.

(b) Metropolitan has no obligation or liability to the Owners with respect to the Paying Agent Agreement, including, but not limited to, the payment of principal of and interest on the 2017A Bonds and the payment of the Purchase Price of any Self-Liquidity Bonds, other than from Net Operating Revenues.

Execution of Instruments; Proof of Ownership

(a) Any request, direction, consent or other instrument in writing required or permitted by the Paying Agent Agreement to be signed or executed by Owners or on their behalf by an attorney-in-fact may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Owners in person or by an agent or attorney-in-fact appointed by an instrument in writing or as provided in the 2017A Bonds. Proof of the execution of any such instrument and of the ownership of the 2017A Bonds will be sufficient for any purpose of the Paying Agent Agreement and will be conclusive in favor of the Paying Agent with regard to any action taken by it under such instrument if made in the following manner: (i) the fact and date of the execution by any person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments within such jurisdiction, to the effect that the person signing such instrument acknowledged before him the execution thereof, or by an affidavit of a witness to such execution; and (ii) the ownership of 2017A Bonds will be proved by the registration books kept under the provisions of the Paying Agent Agreement;

(b) Nothing contained in the Paying Agent Agreement will be construed as limiting the Paying Agent to such proof. The Paying Agent may accept any other evidence of matters stated in the Paying Agent Agreement which it may deem sufficient. Any request, consent of, or assignment by any Owner of a Bond will bind every future Owner of the same 2017A Bond issued in lieu thereof in respect of anything done by the Paying Agent or Metropolitan in pursuance of such request or consent.

Governing Law

The internal laws of the State (without regard to conflicts of laws principles) will govern the construction and enforcement of the Paying Agent Agreement and of all 2017A Bonds issued thereunder.

Notices

(a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted by the Paying Agent Agreement or the 2017A Bonds must be in writing except as expressly provided otherwise therein or in the 2017A Bonds.

(b) The Paying Agent will give written notice to the Rating Agencies and the Liquidity Provider, if any, as soon as reasonably practicable, of the occurrence of any of the following events: (i) appointment of a successor Paying Agent; (ii) amendment to the Paying Agent Agreement, or, upon notice thereof from Metropolitan,

any amendment of any Liquidity Facility then in effect or the Resolutions; (iii) redemption of the 2017A Bonds; (iv) change in the Interest Mode of the 2017A Bonds or conversion to a Fixed Interest Rate; (v) change in the designation of any 2017A Bonds as Liquidity Supported Bonds or Self-Liquidity Bonds; (vi) removal or resignation of the Fiscal Agent, the Paying Agent or the Remarketing Agent; (vii) expiration, termination, suspension, extension or substitution of a Liquidity Facility; (viii) mandatory tender for purchase of the 2017A Bonds; (ix) defeasance of the 2017A Bonds; (x) acceleration of the 2017A Bonds; or (xi) the 2017A Bonds are no longer Book-Entry Bonds. Notice in the case of an event referred to in clause (ii) above will include a copy of any such amendment.

Information to Rating Agencies

Metropolitan will provide to any Rating Agency such information relating to the 2017A Bonds or Metropolitan as reasonably requested by such Rating Agency, within a reasonable period following the request therefor.

Holidays

If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Paying Agent Agreement, is not a Business Day, such payment may, unless otherwise provided in the Paying Agent Agreement, be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the stated date provided in the Paying Agent Agreement, and no interest will accrue for the period from and after such stated date.

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

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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 website 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 website. The beneficial owners of the 2017A Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NONE OF METROPOLITAN, THE FISCAL AGENT OR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2017A 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 2017A BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2017A BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2017A BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2017A Bonds. The 2017A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2017A Bonds and will be deposited with DTC.

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

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

Purchases of the 2017A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017A Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2017A 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 2017A 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 2017A Bonds, except in the event that use of the book-entry system for the 2017A Bonds is discontinued.

To facilitate subsequent transfers, all 2017A 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 2017A 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 2017A Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2017A 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 2017A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2017A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2017A Bonds documents. For example, Beneficial Owners of the 2017A Bonds may wish to ascertain that the nominee holding the 2017A 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 2017A 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 2017A 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 2017A 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 2017A 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, the Fiscal Agent or the Paying 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 Direct or Indirect Participant and not of DTC, the Fiscal Agent, the Paying Agent or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the 2017A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan, the Fiscal Agent or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NONE OF METROPOLITAN, THE FISCAL AGENT OR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Metropolitan, the Fiscal Agent, the Paying Agent and the Underwriter cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal or interest on the 2017A 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. None of Metropolitan, the Fiscal Agent, the Paying Agent or the Underwriter is 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 2017A Bonds or for an error or delay relating thereto.

A Beneficial Owner shall give notice to elect to have its 2017A Bonds purchased or tendered, if applicable, through its Direct Participant, to the Paying Agent, and shall effect delivery of such 2017A Bonds by causing the Direct Participant to transfer the Direct Participant's interest in the 2017A Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of 2017A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2017A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2017A Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2017A Bonds at any time by giving reasonable notice to Metropolitan, the Fiscal Agent or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, 2017A 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, 2017A 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 2017A BONDS AND WILL NOT BE RECOGNIZED BY THE FISCAL AGENT OR THE PAYING AGENT AS

OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

If the book-entry system is discontinued, payments of principal and purchase price of and interest on the 2017A Bonds will be payable as described in this Official Statement under the “DESCRIPTION OF THE 2017A BONDS – General.”

APPENDIX E

**SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR METROPOLITAN'S SERVICE AREA**

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APPENDIX E

SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA

This Appendix E has been prepared by the Center for Continuing Study of the California Economy. Forward looking statements are those of the Center for Continuing Study of the California Economy. Neither the Center for Continuing Study of the California Economy nor Metropolitan is obligated to issue any updates or revisions to the data set forth in this Appendix E.

General

The map contained in the body of the Official Statement or Remarketing Statement to which this Appendix E is attached shows the area served by Metropolitan. It includes parts of six of the ten counties that comprise Southern California. The area served by Metropolitan represents the most densely populated and heavily industrialized portions of Southern California.

In this Appendix E, the economy of the area served by Metropolitan is generally described in terms of data for the area consisting of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties ("Six County Area"). Although these counties comprise Metropolitan's service area, Metropolitan's territory does not encompass all of the area within each of the six counties. In 2015, the economy of the Six County Area was larger than all but eleven nations of the world. The Six County Area economy ranked between Australia (\$1.344 trillion) and the Russian Federation (\$1.326 trillion), with an estimated gross domestic product ("GDP") of just over \$1.34 trillion. The Six County Area's gross domestic product in 2015 was larger than all states except California, Texas and New York.

RANKING OF AREAS BY GROSS DOMESTIC PRODUCT (Dollars in Billions) 2015

United States	\$18,037
China	10,866
Japan	4,123
Germany	3,356
United Kingdom	2,849
California	2,459
France	2,422
India	2,073
Italy	1,815
Brazil	1,775
Texas	1,648
Canada	1,551
New York	1,441
Australia	1,344
Six County Area	1,340
Russian Federation	1,326
Spain	1,199
Mexico	1,144

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 Six County Area economy is affected by trends in the national and world economies. The U.S. economy is producing strong job gains while GDP growth has remained well below the average for past recoveries. Private sector nonfarm wage and salary job levels in December 2016 were 6.9 million above the pre-recession peak level and 15.2 million above the recession low. The unemployment rate in the nation has declined from near 9.8% in November 2010 to 4.7% in December 2016.

Consumer price increases have remained 2% annually and interest rates continue at historically low levels although the Federal Reserve Bank has increased the federal funds rate in December and more rate hikes are anticipated on 2017 and 2018. First-time unemployment claims were below 300,000 for the 96 weeks ending December 31, 2016 while job openings have reached record levels. Job growth will slow in coming years as more baby boomers retire. World economic conditions remain uncertain in 2017.

The Six County Area has regained all the jobs lost during the recession and were 395,000 above pre-recession levels in November 2016. Year-over-year job gains continued in 2016 and between November 2015 and November 2016 ranged from a high of 2.5% in Riverside-San Bernardino metro area to a low of 1.1% in Ventura County. Job growth for the entire Six County Area was 171,800 jobs or a gain of 1.9% compared to a 1.6% increase in jobs for the nation for the comparable period.

Unemployment rates in the Six County Area have declined sharply between 2010 and November 2016. In November unemployment rates ranged from a low of 3.7% in Orange County to a high of 5.7% in Riverside County. Income, taxable sales, assessed valuation and housing prices rose in 2014 and 2015. Residential building permits rebounded in 2014 and 2015. Nonresidential permit levels reached a record \$12.6 billion in 2014 and declined slightly to \$11.9 billion in 2015. Permit levels in 2016 were near 2015 levels.

The Six County Area is experiencing growth in both domestic and foreign visitors. In 2015 Los Angeles County set tourism records for the second year in a row in visitors (45.52 million), hotel occupancy rates (79.7%) and average daily rate (\$158.35) according to data from the Los Angeles Tourism and Convention Board. In 2015 passenger travel at Los Angeles International Airport was up 5.9% to 74.7 million trips to set an all-time record. Air passenger travel at the major airports in the Six County Area reached record levels in 2015 and is up 6.5% in 2016 through November.

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. Population growth averaged 176,300 between 2010 and 2016 according to the DOF estimates, although growth slowed in 2016 as birth rates and migration fell. The Six County Area had 22.1 million residents in 2016, approximately 56% of the State’s population.

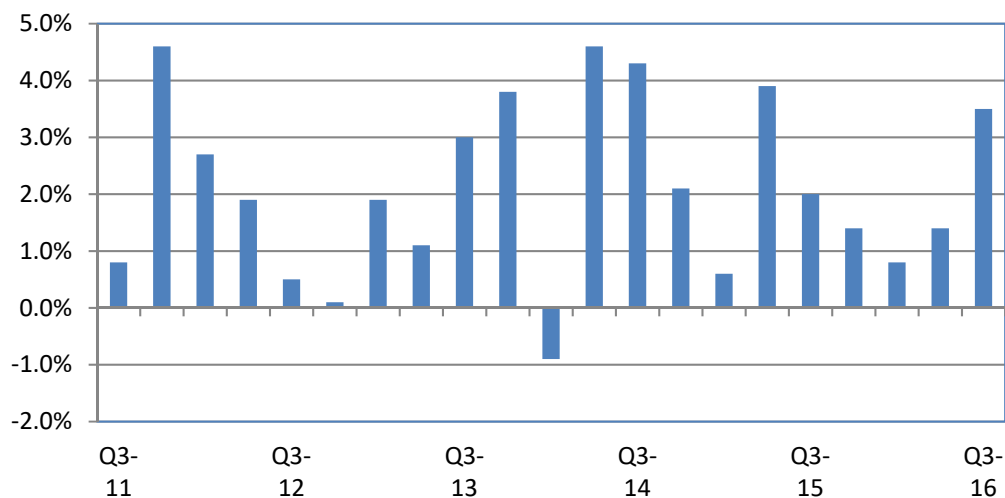
Income, taxable sales and assessed valuation in the Six County Area increased in 2014, 2015 and 2016 along with growth in foreign trade and film permits. Gains in income, taxable sales and assessed valuation are all outpacing the growth in consumer price indices in the Six County Area all of which are helping local government revenue growth.

Long-term job growth is driven by the Six County Area’s economic base—those sectors that sell most of their goods and services in national and world markets outside of the Six County Area. Recent projections by 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.

An Update on the U.S. Economic Outlook

The national economy has expanded since 2009. GDP growth rates have been below the historical average for economic recoveries while labor market indicators have shown stronger performance. GDP increased by 3.5% in the third quarter of 2016 following a gain of only 0.8% in the first quarter of 2016 and 1.4% in the second quarter. On the other hand job levels have increased substantially since March 2010 and the unemployment rate declined to 4.7% in December 2016 along with gains in the labor force participation rate and 96 weeks with first-time unemployment claims under 300,000. The labor market and GDP indicators are telling different stories about the strength of the U.S. economy with strong gains in employment alongside very modest GDP growth.

U.S. GDP Growth



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

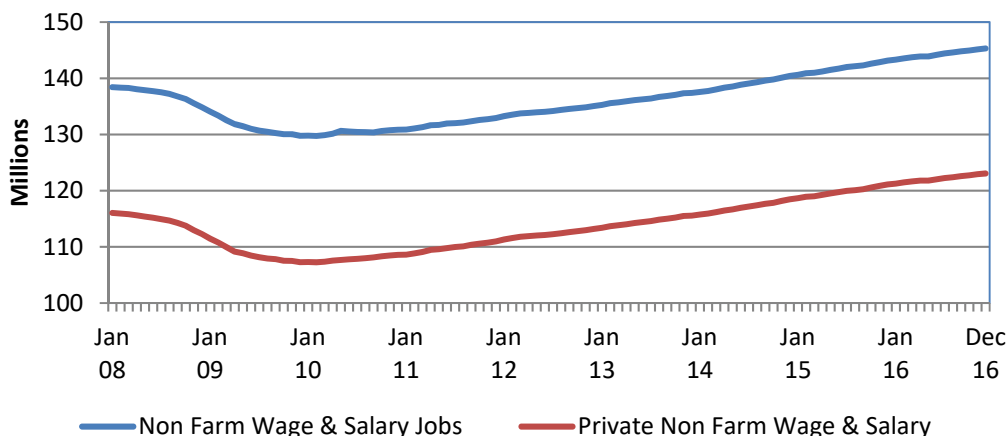
The nation added 15.2 million jobs between the recession low in February 2010 and December 2016. (See figure on the following page). In December 2016, nonfarm wage and salary job levels were 6.9 million above the pre-recession peak while private sector nonfarm wage and salary jobs surpassed the prerecession peak by 7.0 million jobs in April 2016.

The unemployment rate in the nation has declined from near 9.8% in November 2010 to 4.7% in December 2016 (see figure below). The U-6 unemployment rate shown below, which includes people working part-time but wanting full-time work and those marginally attached (nor currently in the labor force but wanting to work), was 9.2% in December 2016, equal to the 9.2% rate in January 2008 but above the pre-recession level of 7.9% but also well below the 17.1% high in late 2009.

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. The four-week average for the week ending December 31, 2016 was 256,750, marking 96 straight weeks with initial claims below 300,000 and below the pre-recession level.

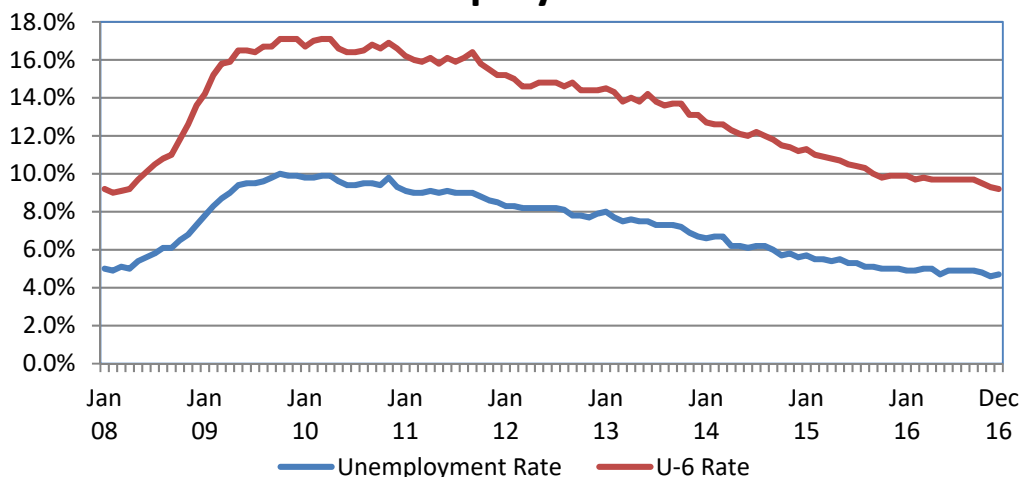
Second, the number of job openings and new hires has been increasing and now exceeds the pre-recession levels. The number of layoffs has been fairly steady. Third, the labor force participation rate has increased in recent months as some workers have rejoined the workforce. The participation rate has declined since 2007 as a result of four factors—retirements, more youth in college, more workers on disability and some workers who became discouraged and stopped looking for work.

U.S. Job Trends Jan 2008--Dec 2016



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

U.S. Unemployment Rate



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

Most forecasts for 2017 and 2018 expect stronger, but moderate, GDP growth compared to the last two quarters and slowing job growth. For example, the UCLA Anderson School forecast released in December 2016 forecasts GDP growth of 2.4% in 2017 and 3.0% in 2018, with the national unemployment rate falling to 4.5% in 2018. They forecast national job growth to slow to 1.3% in 2017 and 1.1% in 2018 down from 1.8% in 2016 and 2.1% in 2015. The principal cause is slowing labor force growth as more baby boomers retire.

The Federal Reserve Bank raised the federal funds rate in December 2016 and indicated 2-3 additional increases will come in 2017. Treasury bond rates and 30-year mortgage rates have risen but remain low compared to historical averages. Consumer and producer prices are still increasing at a rate less than 2% per year. Wage growth has increased slightly (up 2.9% in December 2016 from a year earlier and is growing faster than consumer prices. Uncertainty about global economic growth rates and the impact of policies of the new administration are factors in evaluating the short-term outlook.

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. Year-over-year job gains (see the table below) continued into 2016 and between November 2015 and November 2016 ranged from a high of 2.5% in Riverside-San Bernardino metro area to a low of 1.1% in Ventura County. Job growth for the entire Six County Area was 171,800 jobs or a gain of 1.9% compared to a 1.6% increase in jobs for the nation for the comparable period.

Job growth was aided by gains in foreign trade, tourism and professional services as well as a rebound in construction and related sectors and continuing growth in health care and food services.

RECENT EMPLOYMENT TRENDS (Non-Farm Wage and Salary Jobs in Thousands)

	2007	2010	2014	2015	Nov 15	Nov 16	Nov 15-16 % Change
Los Angeles	4,254.2	3,923.2	4,189.0	4,274.2	4,352.7	4,418.0	1.5%
Orange	1,524.0	1,370.3	1,495.5	1,542.7	1,575.8	1,614.1	2.4%
Riverside-San Bernardino	1,289.9	1,150.7	1,289.3	1,347.4	1,384.9	1,419.0	2.5%
San Diego	1,323.8	1,242.0	1,346.5	1,386.4	1,414.2	1,445.1	2.2%
Ventura	298.4	275.5	292.9	294.8	299.5	302.7	1.1%
Total Six County Area	8,690.3	7,961.7	8,613.2	8,845.5	9,027.1	9,198.9	1.9%

Source: California Employment Development Department (EDD)

Unemployment rates in the Six County Area have declined sharply between 2010 and November 2016 (See the table below). In November 2016 unemployment rates ranged from a low of 3.7% in Orange County to a high of 5.7% in Riverside County. Unemployment rates for the counties are not seasonally adjusted and peak in the summer months. All counties in the Six County Area experienced a decline in unemployment rates between November 2015 and November 2016.

UNEMPLOYMENT RATES

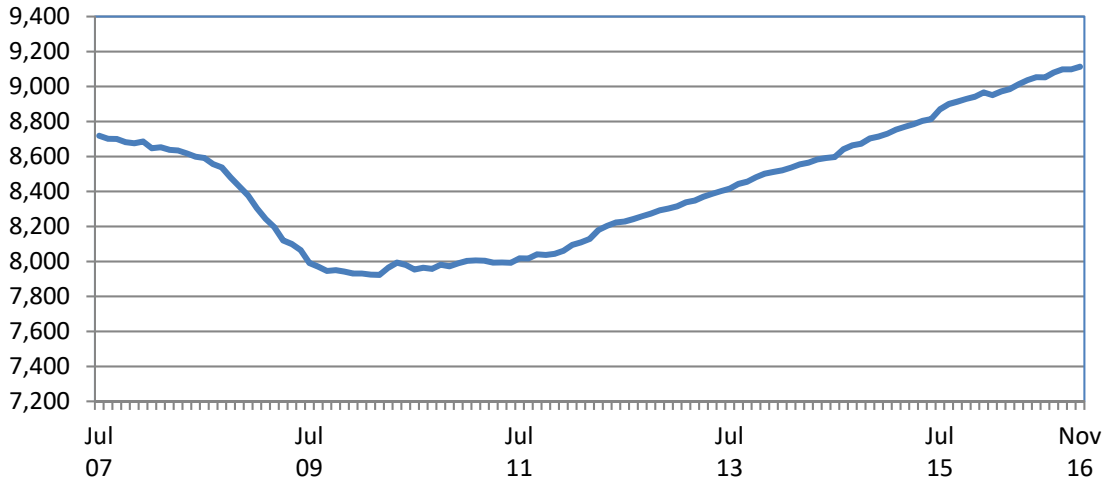
	2000	2006	2010	2014	2015	Nov 15	Nov 16
Los Angeles County	5.4%	4.8%	12.5%	8.2%	6.7%	5.8%	4.8%
Orange County	3.5%	3.4%	9.7%	5.5%	4.5%	4.3%	3.7%
Riverside County	5.4%	5.0%	13.8%	8.2%	6.7%	6.3%	5.7%
San Bernardino County	4.8%	4.8%	13.5%	8.0%	6.5%	6.0%	5.3%
San Diego County	3.9%	4.0%	10.8%	6.4%	5.2%	5.0%	4.3%
Ventura County	4.5%	4.3%	10.8%	6.6%	5.7%	5.6%	5.0%
United States	4.0%	4.6%	9.6%	6.2%	5.3%	5.0%	4.6%
State of California	4.9%	4.9%	12.2%	7.5%	6.2%	5.9%	5.3%

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 has outpaced the nation in job growth since the beginning of 2013 although unemployment

rates have not fully recovered from the pre-recession levels. By November 2016 job levels were 395,000 or 4.5% above the pre-recession peak level in July 2007.

Six County Area Jobs (Thousands)

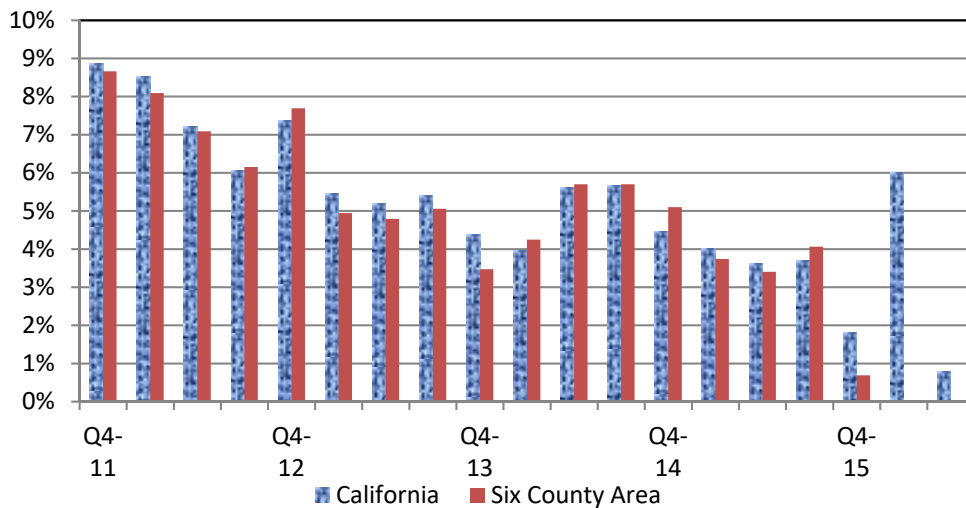


Source: EDD; data are seasonally adjusted

Taxable Sales and Income

Taxable sales increased by 9.1% in California in 2011, 7.3% in 2012, 5.1% in 2013, 4.9% in 2014 and 3.3% in 2015 as shown below. Taxable sales rose by 4.5% in the Six County Area in 2013 and 5.2% in 2014 and 2.9% in 2015 close to the state growth rate for the three years combined. The Six County Area accounts for 55% of statewide taxable sales and future results are forecast to reflect the pattern of statewide gains.

Change in Taxable Sales From Year Earlier



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 faster than inflation in all counties in each year since 2010. Taxable sales in the Six County Area increased in 2015 by 2.9% while the consumer price index increased by 0.9%.

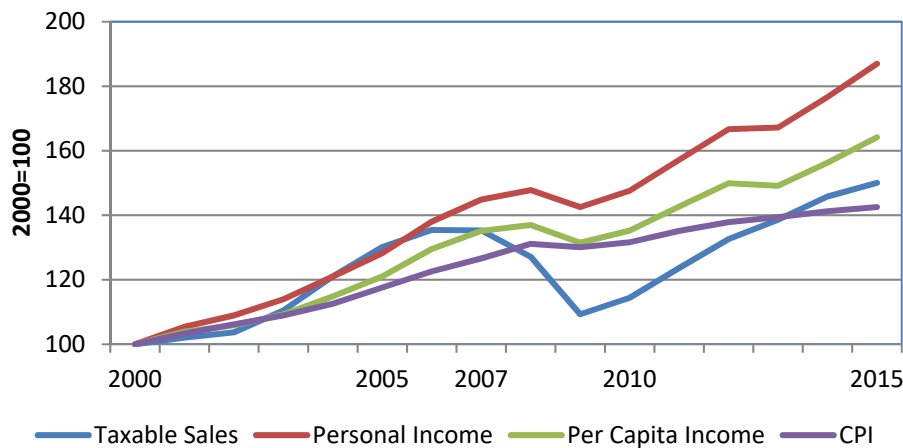
**TAXABLE SALES
(Dollars in Billions)**

	2000	2006	2010	2014	2015	% Change 2000 - 15	% Change 2006 - 15
Los Angeles County	\$106.7	\$136.2	\$116.9	\$147.4	\$151.0	42%	11%
Orange County	44.5	57.2	47.7	60.1	61.4	38%	7%
Riverside County	17.0	29.8	23.2	32.0	32.9	94%	10%
San Bernardino County	18.9	31.3	24.7	33.1	35.3	87%	13%
San Diego County	36.2	47.8	41.6	52.7	54.2	50%	13%
Ventura County	9.1	12.3	10.2	13.4	13.8	52%	12%
Total Six County Area	\$232.4	\$314.6	\$264.3	\$338.7	\$348.6	50%	11%
Los Angeles Area Consumer Price Index (1982-84 = 100.0)	171.6	210.4	225.9	242.4	244.6	43%	16%

Source: Taxable Sales—California Board of Equalization, Consumer Price Index—U.S. Bureau of Labor Statistics

Total personal income reached a record \$1.1 trillion in 2015 in the Six County Area. Per capita personal income reached a record level of \$50,511 in 2015 and the gain in per capita income between 2000 and 2015 now far exceeds the increase in consumer prices. Taxable sales growth kept pace with total income growth through 2005 but has lagged far behind income for the period since 2000 although it has exceeded the increase in consumer prices as shown below. The growth in income and taxable sales is expected to outpace the increase in consumer prices for 2016 and 2017 and most future years.

Growth in Taxable Sales, Income and Consumer Prices in Six County Area



Sources: California Board of Equalization, U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

Construction Activity

Residential building permit levels in the Six County Area declined sharply after 2004 falling from 108,322 to 17,932 units in 2009. Permit levels have rebounded since 2009 reaching 47,169 in 2014 and 54,911 permits in 2015 with similar levels in 2016. Permit levels in Los Angeles and Orange County are near pre-recession levels while permit levels in other parts of the Six County Area remain well below 2004 levels. Since 2011 more than half of all new permits have been for multi-family residential building with more than 2/3 since 2013. Projected long-term job and population growth will support a much higher level of residential construction than is currently occurring.

RESIDENTIAL BUILDING PERMITS

	<u>2004</u>	<u>2009</u>	<u>2014</u>	<u>2015</u>	Jan-Nov <u>2015</u>	Jan-Nov <u>2016</u>	Jan-Nov <u>2015-16</u>
Los Angeles County	26,395	5,653	18,707	22,892	21,321	18,307	-14%
Orange County	9,322	2,200	10,636	10,897	9,997	11,079	11%
Riverside County	34,226	4,190	6,938	6,196	5,739	5,684	-1%
San Bernardino County	18,470	2,495	3,203	3,912	3,623	3,446	-5%
San Diego County	17,306	2,990	6,603	10,005	9,135	9,237	1%
Ventura County	<u>2,603</u>	<u>404</u>	<u>1,082</u>	<u>1,009</u>	<u>971</u>	<u>1,388</u>	43%
Total Six County Area	<u>108,322</u>	<u>17,932</u>	<u>47,169</u>	<u>54,911</u>	<u>50,786</u>	<u>49,141</u>	-3%

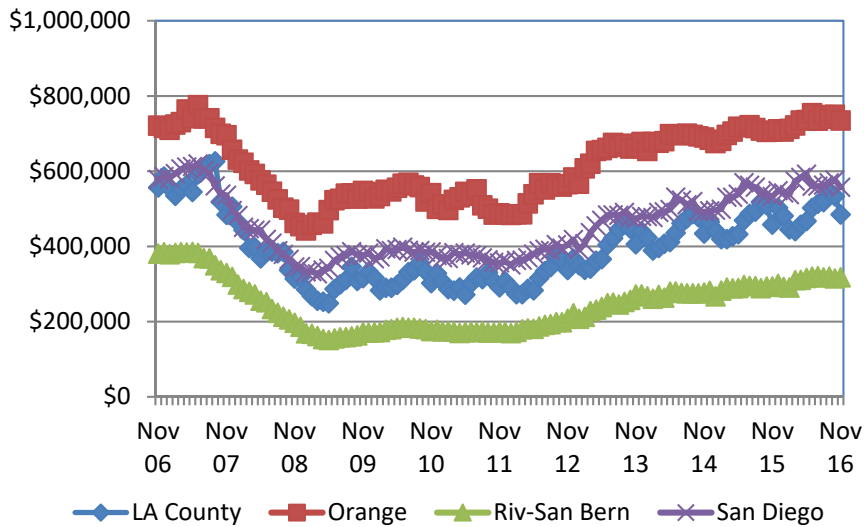
Source: Construction Industry Research Board and California Homebuilding Foundation

Housing Trends in the Six County Area Economy

The housing market recovery that began in 2012 has continued and strengthened through the first eleven months of 2016. 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 2016 and beyond.

Median resale housing prices in Six County Area markets were near 2003 levels at the lowest recent levels in March 2009 (See figure on the following page). Median prices fluctuated in a narrow range until the summer of 2012 and then began a rebound that continued into 2016. In November 2016 median prices throughout the Six County Area were at the top of the recent range with increases of between 51% and 78% since March 2012. CAR reported that the share of distressed properties declined from 37% of total sales in September 2012 to 6.4% statewide in December 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 five years ending in October 2016 gaining 54% in the Los Angeles market area and 51% in the San Diego market area during this period.

Median Resale Housing Prices

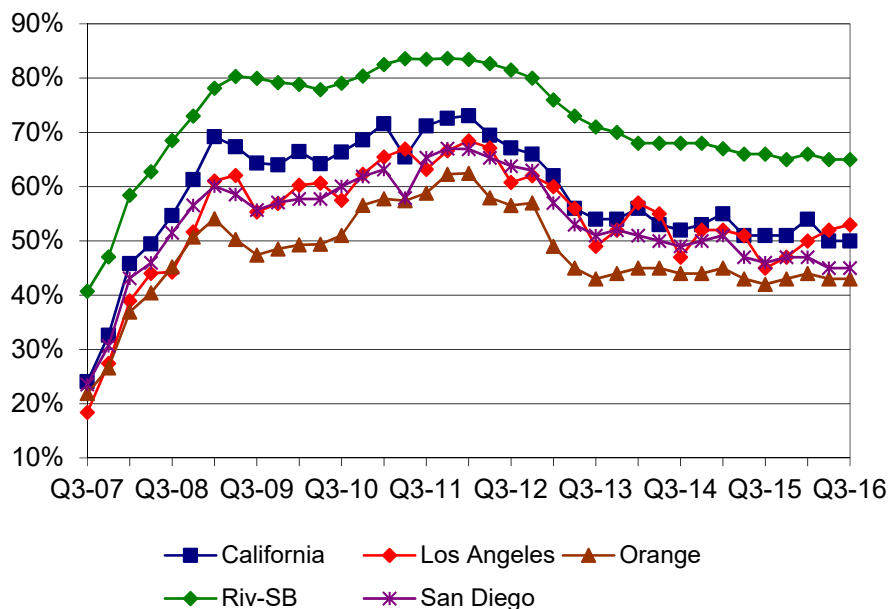


Source: California Association of Realtors

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 on the following page). Housing affordability for first time homebuyers, as measured by CAR, increased throughout the Six County Area between 2008 and 2011. Since then affordability has declined as housing prices increased. Affordability has remained relatively constant since the end of 2014. However, mortgage rates increased in the 4th quarter of 2016 and interest rates are expected to increase in 2017 and 2018.

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.

First-Time Buyer Affordability Index



Source: California Association of Realtors

Nonresidential Construction

Nonresidential construction permit levels reached a record \$12.6 billion in 2014, declined slightly to \$11.9 billion in 2015 and are down 3% in the first 11 months of 2016 but still near record levels.

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 has experienced a rebound in nonresidential permit levels since 2009 with gains in office and hotel construction. Public construction, not shown in the table below, has also increased. The increase in residential, nonresidential and public construction is supporting job growth in construction and related industries.

TOTAL NONRESIDENTIAL CONSTRUCTION PERMIT VALUATION

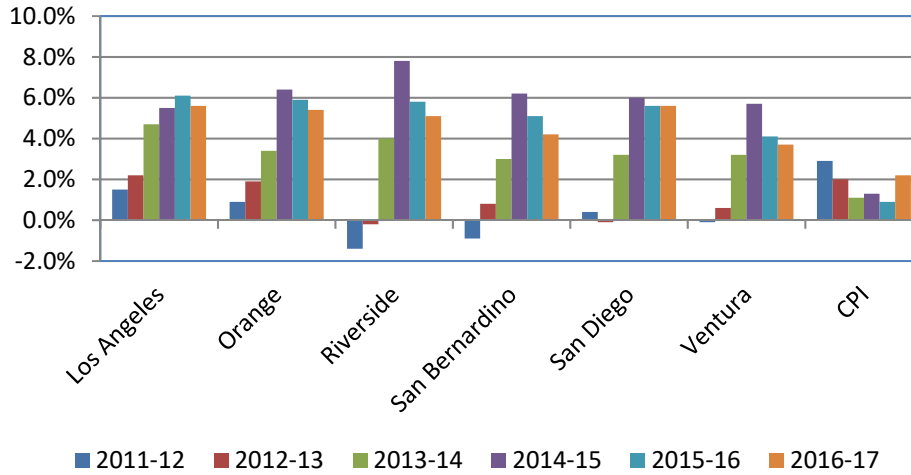
	(Dollars in Billions)				Jan-Nov	Jan-Nov	Jan-Nov
	<u>2007</u>	<u>2009</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2016</u>	<u>2015-16</u>
Los Angeles County	\$4.7	\$2.7	\$6.7	\$5.6	\$5.3	\$4.7	-11%
Orange County	2.0	1.0	2.0	2.2	2.0	2.3	15%
Riverside County	1.5	0.4	0.8	0.9	0.8	1.0	25%
San Bernardino County	1.4	0.3	1.0	1.1	1.0	0.9	-10%
San Diego County	1.4	0.6	1.9	1.9	1.7	1.6	-6%
Ventura County	<u>0.3</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>	<u>0.1</u>	11%
Total Six County Area	<u>\$11.3</u>	<u>\$5.1</u>	<u>\$12.6</u>	<u>\$11.9</u>	<u>\$10.9</u>	<u>\$10.6</u>	-3%

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 2016-17 fiscal year with gains ranging from 3.7% in Ventura County to 5.6% in Los Angeles and San Diego County compared to a 2.2% increase in the Consumer Price Index (CPI) (See figure below). For four years in a row assessed valuation growth has outpaced inflation in each county in the Six County Area.

Change in Assessed Value

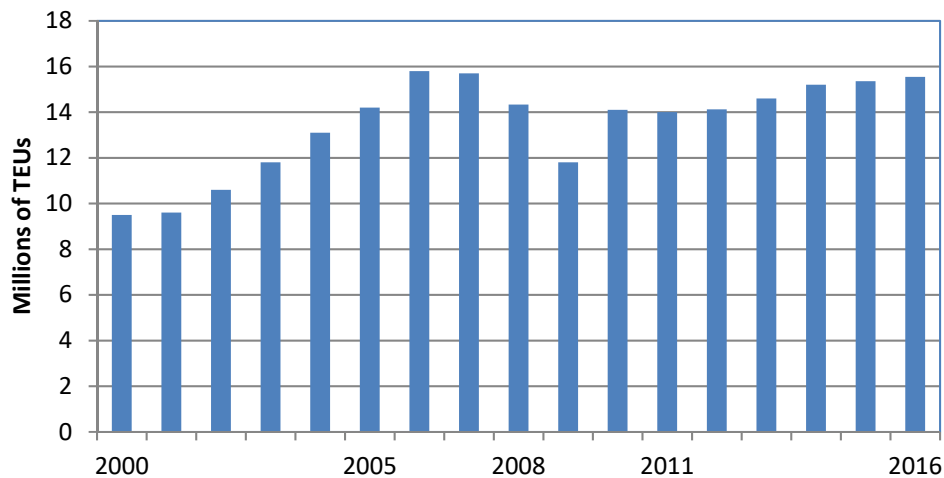


Source: County Assessors' Offices and Bureau of Labor Statistics

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 2015. Container volumes in 2016 are up 1.3% through November 2016. (See figure on the following page).

Container Shipments Los Angeles and Long Beach Ports



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 62% between 2000 and 2015 despite the large drop in 2008 and 2009. Trade volume fell by 3.7% in 2015 to \$464 billion including \$393.8 billion in the Los Angeles Customs District

leading all U.S. ports and \$70.2 billion in the San Diego Customs District. This growth supports jobs and economic activity in the transportation, wholesale trade and warehousing industries as the Six County Area is a gateway for U.S. trade with Pacific Rim countries. For example in the Riverside-San Bernardino metro area where many imports are stored and shipped from saw an increase in warehousing jobs from 18,300 to 36,500 between April 2010 and October 2016 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 \$159.0 billion in two-way trade in 2015, down 4.5% from 2014, with the dominant portion related to imports from China. The next largest trading partner is Japan (\$38.3 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 its trading partners can 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 Economic Development Corporation ("LAEDC") report in June 2016 cited long-term challenges including competition from the Panama Canal expansion and from other east and west-coast ports.

The outlook for foreign trade expansion particularly with China and Mexico has become uncertain with the election results and the campaign statements of the new President about foreign trade agreements.

Income, Wages and Poverty Rates

Counties in the Six County Area have income and wage levels and poverty rates that range from below the national average to above the national average. Orange and Ventura counties have the highest household income levels within the Six County Area. Los Angeles 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. Poverty rates exceed the national average in Los Angeles, Riverside and San Bernardino counties and below the national average in Orange, San Diego and Ventura counties.

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 on the following page shows median household income, per capita income, wage levels and poverty rates for each of the counties in the Six County Area, as well as for California and the United States, in 2015.

Income and poverty levels improved in 2015 throughout the Six County Area (See table below). Per capita income growth (in current dollars) increased by from 4.1% in Orange County to 5.6% in San Bernardino County, all ahead of the national average and far faster than the increase in consumer prices. Median household income (adjusted for inflation) increased by from 1.7% in San Diego County to 6.1%

in Los Angeles and Ventura counties. Average wages (in current dollars) increased by from 2.7% in San Diego County to 6.7% in San Bernardino County all faster than the national increase and the gain in consumer prices. Poverty rates fell throughout the Six County Area although these rates do not take into account the rapid rise in rents and home prices throughout the Six County Area.

INCOME AND WAGES 2015

	Per Capita Income	Median Household Income	Average Wage	Poverty Rate
Los Angeles County	\$53,521	\$59,134	\$58,742	16.6%
Orange County	57,749	78,428	59,708	12.7%
Riverside County	35,589	58,292	43,051	16.2%
San Bernardino County	35,431	53,803	43,396	19.0%
San Diego County	53,298	67,320	58,069	13.8%
Ventura County	54,155	80,032	53,930	9.6%
California	53,741	64,500	61,698	15.3%
United States	48,112	55,775	52,092	14.7%

Source: Per Capita Income—U.S. Department of Commerce; Median Household Income and Poverty Rate—U.S. Census Bureau (American Community Survey); Average Wage—U.S. Bureau of Labor Statistics

CHANGE IN INCOME AND WAGES 2014-15

	Per Capita Income	Median Household Income	Average Wage	Poverty Rate
Los Angeles County	5.5%	6.1%	3.7%	-2.1%
Orange County	4.1%	2.8%	5.2%	-0.1%
Riverside County	5.1%	2.3%	6.7%	-0.9%
San Bernardino County	5.6%	3.4%	3.2%	-1.6%
San Diego County	4.2%	1.7%	2.7%	-0.9%
Ventura County	5.1%	6.1%	3.9%	-1.7%
California	5.4%	4.1%	4.5%	-1.1%
United States	3.7%	3.9%	1.4%	-0.8%

Source: Per Capita Income—U.S. Department of Commerce; Median Household Income and Poverty Rate—U.S. Census Bureau (American Community Survey); Average Wage—U.S. Bureau of Labor Statistics

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 averaged 176,300 between 2010 and 2016 according to the DOF estimates, although growth slowed in 2016. The Six County Area had 22.1 million residents in 2016, approximately 56% of the State's population.

**SIX COUNTY AREA POPULATION
(In Thousands)**

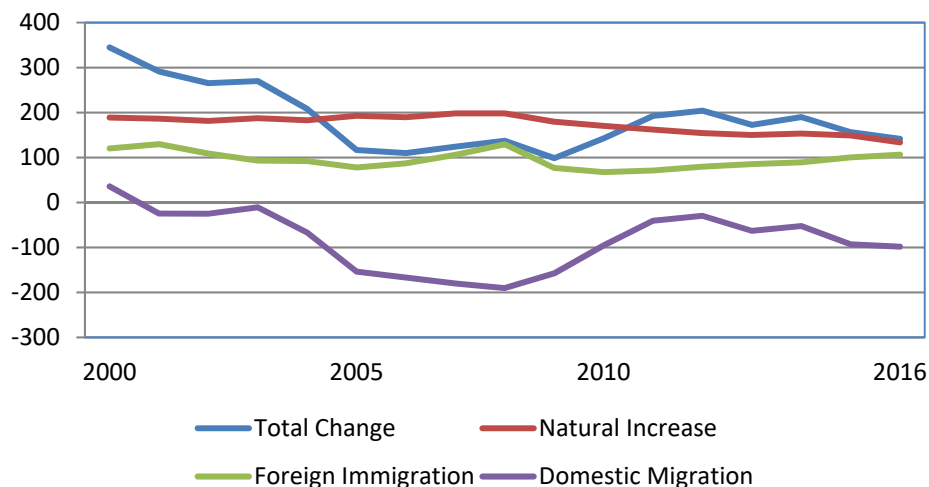
	<u>1990</u>	<u>2000</u>	<u>2005</u>	<u>2010</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Los Angeles County	8,860	9,544	9,810	9,837	10,125	10,186	10,229
Orange County	2,412	2,854	2,957	3,015	3,138	3,161	3,181
Riverside County	1,188	1,557	1,935	2,196	2,306	2,329	2,361
San Bernardino County	1,432	1,719	1,943	2,044	2,112	2,130	2,148
San Diego County	2,505	2,828	2,970	3,100	3,248	3,275	3,301
Ventura County	<u>669</u>	<u>757</u>	<u>797</u>	<u>824</u>	<u>848</u>	<u>852</u>	<u>854</u>
Total Six County Area	<u>17,066</u>	<u>19,259</u>	<u>20,412</u>	<u>21,016</u>	<u>21,777</u>	<u>21,933</u>	<u>22,074</u>

Source: California Department of Finance as of July 1

Six County Area population growth is determined by three major components—natural increase, which is the number of births minus the number of deaths, net foreign immigration, which is the number of people moving to the region from abroad minus the number moving abroad and net domestic migration, which is the number of people moving from other regions of the state and nation minus the number moving out to these areas. Natural increase was the largest component of population growth from 2000 through 2016 averaging near 174,000 per year. Declining birth rates have reduced natural increase to near 134,000 in 2016.

Net foreign immigration has averaged 95,000 per year since 2000 while net domestic migration has been negative since 2000 averaging -83,000 per year. Foreign immigration declined during the recession but has rebounded since 2011. Net out migration is still negative but at lower levels than during the recession.

**Components of Change in Six County
Area Population (Thousands)**



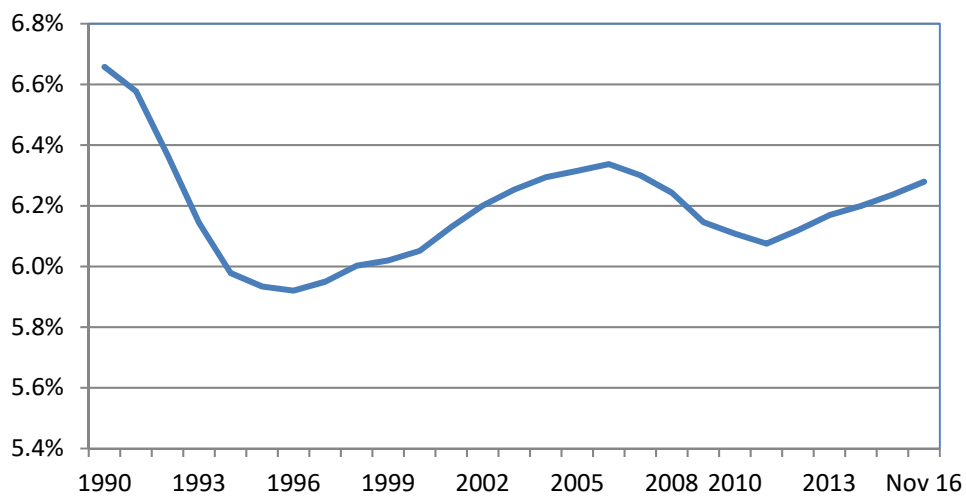
Source: California Department of Finance as of July 1

Population projections for 2040 for the Six County Area from SCAG, SANDAG and DOF show expected population growth of approximately 3.8 million for the Six County Area, an increase of 18% between 2015 and 2040.

Economic Structure of the Six County Area and Long-Term Prospects

The Six County Area has now recovered nearly all of the losses in the area’s share of national jobs that occurred during the recession after 2007. In November 2016 the Six County Area accounted for 6.3% of the nation’s non-farm wage and salary jobs, close to the pre-recession highs (See figure on the following page). 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.

Six County Area Share of U.S. Jobs



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

In November 2016 Education and Health Services was the largest major industry sector in the Six County Area measured by jobs, with just fewer than 1.5 million jobs or almost 16% of the Six County Area total (see the table on the following page).

The next largest sectors in 2016 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 2007: Educational and Health Services and Leisure and Hospitality. Six County Area job levels in November 2016 were nearly 500,000 above 2007 levels despite large losses in Construction and Manufacturing. Between 2010 and November 2016 the Six County Area added more than 1.2 million 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. Financial Services and Information recovered only a small portion of recession job losses.

Long-term job growth is driven by the Six County Area’s economic base—those sectors that sell most of their goods and services in national and world markets outside of the Six County Area. Recent projections by CCSCE, SCAG and SANDAG report that the Six County Area will see job growth that slightly exceeds the national average during the next 10 to 30 years, led by gains in Professional and Business Services, Wholesale Trade, Information and the tourism component of Leisure and Hospitality.

**SIX COUNTY AREA
EMPLOYMENT BY MAJOR SECTOR
(In Thousands)**

	2000	2007	2010	Nov 2016	Change 2007-2010	Change 2010 - Nov 2016
Farm	67.7	63.8	59.8	54.3	-4.0	-5.5
Natural Resources and Mining	6.3	7.8	7.3	6.3	-0.5	-1.0
Construction	374.0	479.0	298.9	406.6	-180.1	107.7
Manufacturing	1,114.1	888.9	735.8	743.7	-153.1	7.9
Wholesale Trade	387.5	430.0	382.4	434.4	-47.6	52.0
Retail Trade	835.5	948.6	849.5	979.6	-99.1	130.1
Transp, Warehousing and Utilities	286.8	298.0	274.8	348.2	-23.2	73.4
Information	344.1	293.6	260.6	277.0	-33.0	16.4
Financial Activities	449.2	524.0	442.5	474.5	-81.5	32.0
Professional and Business Services	1,178.0	1,286.8	1,134.6	1,340.5	-152.2	205.9
Educational and Health Services	831.0	1,097.0	1,201.0	1,463.9	104.0	262.9
Leisure and Hospitality	740.7	897.2	861.0	1,106.5	-36.2	245.5
Other Services	271.2	293.9	272.4	317.4	-21.5	45.0
Government	1,171.1	1,245.8	1,240.9	1,300.3	-4.9	59.4
Total Wage and Salary Jobs	8,057.2	8,754.4	8,021.5	9,253.2	-732.9	1,231.7

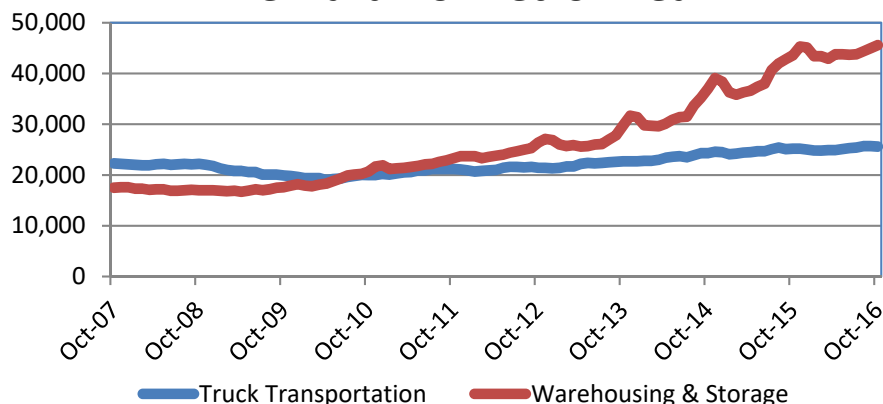
Source: EDD

The Six County Area economy has an economic base that is diversified and well positioned to participate in U.S. and world economic growth over the next ten years. Job levels are expected to grow in the high-wage and fast-growing professional, scientific, technical and information services sectors, which include architecture, design, computer, research and development, advertising, legal, accounting, and Internet-related and management services. Other fast-growing sectors over the next ten years include entertainment and tourism industries and health care.

The Six County Area has an above-average share of four additional fast-growing sectors—Wholesale Trade and Transportation, tied to the area’s projected growth in foreign trade; Information, which includes motion pictures; and the tourism component of Leisure and Hospitality, tied to growth in disposable income in the U.S. and worldwide.

Since 2012 Amazon has opened 5 fulfillment centers (warehouses) in the Inland Empire and that has contributed to a surge in logistics (warehouse and trucking) jobs in the Riverside-San Bernardino metro area. (See figure on the following page).

Logistics Jobs in Riverside-San Bernardino Metro Area



The diversity of the Six County Area economy has led to GDP growth since 2001 that slightly exceeds the national average despite the fact that the area had below average growth during the recession. Average GDP growth in nominal dollars was 4.0% per year compared to 3.6% for the nation between 2001 and 2015. In 2015 the Six County Area outperformed the nation in current dollar and real GDP growth.

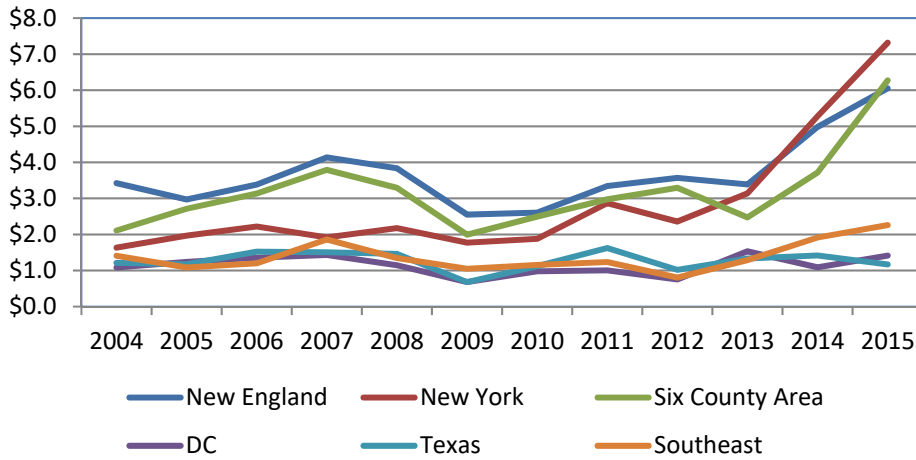
SIX COUNTY AREA GDP (Billions of Current Dollars)

Metro Area	2001	2014	2015	Average Annual Growth Rates		
				Current \$ 2014-15	Current \$ 2001-15	Real \$ 2014-15
LA-Orange	\$544.1	\$880.0	\$930.8	5.8%	3.9%	3.9%
Ventura	\$25.9	\$47.2	\$48.2	2.1%	4.5%	1.4%
Riv.-San Bern.	\$79.3	\$132.3	\$140.6	6.3%	4.2%	3.8%
San Diego	\$121.9	\$210.4	\$220.6	4.8%	4.3%	2.5%

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 \$27.3 billion in 2015 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 2015 the Six County Area accounted for \$6.3 billion and surpassed New England for the first time. In 2015 the Six County Area received 10.7% of national funding up from 7.4% for all of 2014. Funding levels declined nationally and in the four largest regions including the Six County Area in the first three quarters of 2016.

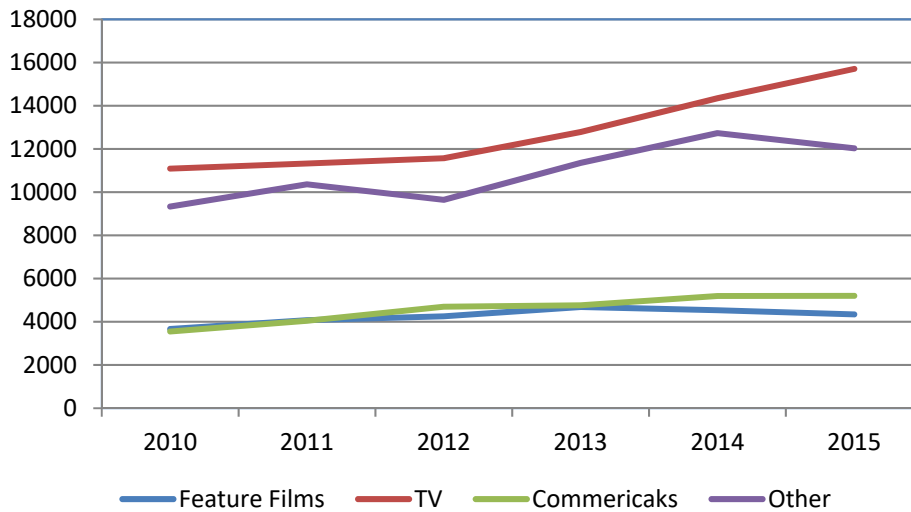
VC Funding (\$Billions)



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 for TV surged in 2015 while other types of shoot days were relatively flat. Shoot days in the first three quarters of 2016 were up by 5.2% led by a 13.6% increase in TV days in part from the higher tax incentives.

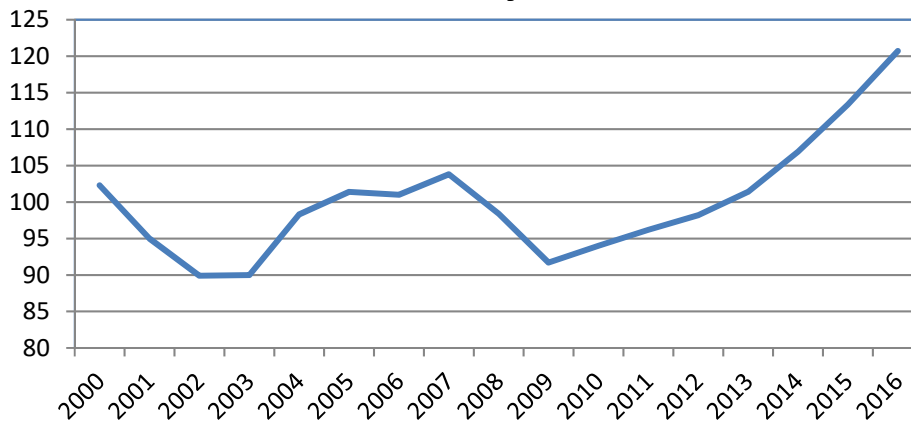
Filming Shoot Days in Los Angeles Area



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 2015 Los Angeles County set tourism records for the second year in a row in visitors (45.52 million), hotel occupancy rates (79.7%) and average daily rate (\$158.35) 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 +13.6% in 2015 to 779,000 visitors following a gain of 20.6% in 2014. In 2015 passenger travel at Los Angeles International Airport was up 5.9% to 74.7 million trips to set an all-time record (see figure below). Air passenger travel at the major airports in the Six County Area reached record levels in 2015 and is up 6.5% in 2016 through November.

Passengers at Major Airports in the Six County Area



Source: Airport websites—Los Angeles International, Burbank, John Wayne, Ontario and San Diego

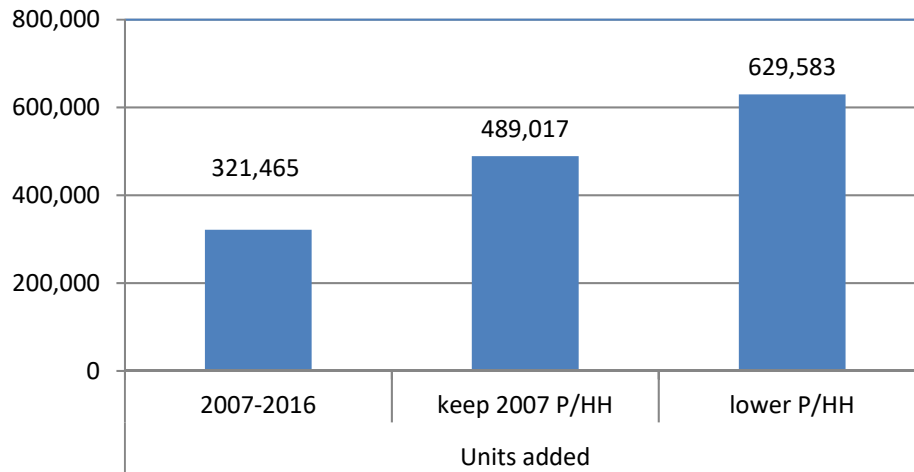
The positives for long-term economic growth include the strength of the region as a center for knowledge-based and creative activities and international trade, tourism and investment with the Pacific Rim. For example, the Six County Area does not have a large number of automotive industry production jobs but nearly all large worldwide auto companies have a major design studio in the Six County Area.

Risks for the Long-Term Forecast

Housing and transportation challenges pose risks to the long-term economic competitiveness and quality of life in the Six County Area. Recent housing shortages have contributed to relatively large increases in home prices and rents. If more housing is not built continuing increases in housing costs could affect location decisions of firms and families.

Two measures of the recent shortage in adding housing units are shown on the following page. Between 2007 and 2016 the Six County Area added 321,465 housing units. To keep pace with population growth and prevent household size from increasing 489,017 units were needed. And to match the smaller household size expected from the decline in birth rates and increase in smaller households from the growing senior population, 629,583 units would have been needed.

Measures of a Six County Area Housing Shortage



Source: California Department of Finance; Center for Continuing Study of the California Economy

In January 2011 the California Department of Housing and Community Development released the draft state housing strategy for 2015-2025 *California's Housing Future: Challenges and Opportunities*. <http://hcd.ca.gov/housing-policy-development/statewide-housing-assessment/>. The statewide annual housing need is 180,000 units per year of which at least 55% or 99,000 would be in the Six County Area compared to the roughly 36,000 units per year added between 2007 and 2016.

In addition the Six County Area needs substantial transportation investment (at least \$500 billion to 2040 to serve the growing number of residents and businesses. The two major planning agencies serving the Six County Area, SANDAG and SCAG, have plans to address these housing and transportation challenges but they require cooperation from local jurisdictions in siting housing and funding for both transportation and below market housing projects in addition to state and local laws that reduce barriers to and costs of building housing and transportation improvements.

The Six County Area economy is connected to the national and world (especially Pacific Rim) economies and is subject to fluctuations and changes in long-term demographic trends around the world and changes in national policies that affect the economy.

APPENDIX F

FORM OF CO-BOND COUNSEL OPINION

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APPENDIX F

FORM OF OPINION OF CO-BOND COUNSEL

Upon issuance of the 2017A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, and Schiff Hardin LLP, Co-Bond Counsel, propose to render their final approving opinions with respect to the 2017A Bonds in substantially the following form:

March 1, 2017

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

Re: \$80,000,000 The Metropolitan Water District of Southern California Water Revenue Bonds, 2017 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 \$80,000,000 aggregate principal amount of Water Revenue Bonds, 2017 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 9217 adopted by the Board on January 10, 2017 (the “Twenty-Second 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 February 28, 2017 (the “Bond Purchase Contract”), by and between Metropolitan and Citigroup Global Markets Inc., 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-Second 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

This Continuing Disclosure Undertaking (the “Undertaking”) is dated as of March 1, 2017 by The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the issuance of its \$80,000,000 aggregate principal amount of Water Revenue Bonds, 2017 Authorization Series A (the “Bonds”). The Bonds are being issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Chapter 3 (Section 53400 *et seq.*) and Chapter 6 (Section 54300 *et seq.*) of Part 1 of Division 2 of Title 5 (the “Act”), 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 9217 adopted by the Board on January 10, 2017 (the “Twenty-Second Supplemental Resolution” and, together with the Master Resolution, the “Resolutions”). Capitalized terms used in this Undertaking which are not otherwise defined in the Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

ARTICLE I
Definitions

Section 1.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) the table under the caption “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Debt Service Requirements” in the forepart of the Official Statement; (ii) under the caption “METROPOLITAN’S WATER SUPPLY” in Appendix A to the Official Statement, the table “Metropolitan’s Water Storage Capacity and Water in Storage”; (iii) under the caption “METROPOLITAN REVENUES” in Appendix A to the Official Statement, the tables “Summary of Revenues 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 EXPENSES” in Appendix A to the Official Statement, the table “Summary of Expenses”; outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long term commitments, and the information described under the sub-caption “Defined Benefit Pension Plan and Other Post-Employment Benefits”; (vi) under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Appendix A to the Official Statement, historical revenues and expenses for the then immediately past fiscal year, as presented in the table “Historical and Projected Revenues and Expenses”; (vii) under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Appendix A to the Official Statement, the percentage of operation and maintenance expenses to total costs; and

(viii) under the caption “METROPOLITAN EXPENSES – Power Sources and Costs” 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 a nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to Metropolitan.

(4) “EMMA System” means the MSRB’s Electronic Municipal Market Access system or any successor nationally recognized municipal securities information repositories recognized by the SEC for the purposes referred to in the Rule.

(5) “Event Notice” means written or electronic notice of a Notice Event.

(6) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

(7) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

(8) “Notice Event” means any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;

- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notice of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of any Bonds;
- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of Metropolitan (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for Metropolitan in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of Metropolitan, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of Metropolitan);
- (xiii) the consummation of a merger, consolidation, or acquisition involving Metropolitan or the sale of all or substantially all of the assets of Metropolitan, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(9) “Official Statement” means the Official Statement dated February 24, 2017, of Metropolitan relating to the Bonds.

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

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

(12) “State” means State of California.

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

ARTICLE II The Undertaking

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

Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 2016-17, by no later than 180 days after the end of the respective fiscal year, to the EMMA System.

(b) Metropolitan shall provide, in a timely manner, notice of any failure of Metropolitan to provide the Annual Financial Information by the dates specified in subsection (a) above to the EMMA System.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof, Metropolitan shall provide Audited Financial Statements, when and if available, to the EMMA System.

Section 2.4. Event Notices. If a Notice Event occurs, Metropolitan shall provide or cause to be provided, in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event, an Event Notice to the EMMA System.

Section 2.5. Additional Information. Nothing in this Undertaking shall be deemed to prevent Metropolitan from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Event Notice, in addition to that which is required by this Undertaking. If Metropolitan chooses to include any information in any Annual Financial Information or Event Notice in addition to that which is specifically required by this Undertaking, Metropolitan shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information or Event Notice.

ARTICLE III Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if Metropolitan provides Annual Financial Information by specific reference to documents (i) either (1) provided to the EMMA System, or (2) filed with the SEC, or (ii) if such document is a “final official statement,” as defined in paragraph (f)(3) of the Rule, available from the MSRB or the EMMA System.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Event Notices. Each Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 3.4. Transmission of Information and Notices. Any filing under this Undertaking may be made solely by transmitting such filing to (i) the MSRB through the EMMA System or (ii) as otherwise specified in the relevant rules and interpretive advice provided by the SEC. Unless otherwise required by law and, in Metropolitan's sole determination, subject to technical and economic feasibility, Metropolitan shall employ such methods of information and notice transmission as shall be requested or recommended by the herein designated recipients of Metropolitan's information and notices.

Section 3.5. Fiscal Year. Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. Metropolitan's current fiscal year is July 1 to June 30, and Metropolitan shall promptly notify the EMMA System of each change in its fiscal year.

ARTICLE IV

Termination, Amendment and Enforcement

Section 4.1. Effective Date; Termination.

(a) This Undertaking and the provisions hereof shall be effective upon the issuance of the Bonds.

(b) Metropolitan's obligations under this Undertaking shall terminate upon a legal defeasance pursuant to Section 9.02 of the Master Resolution, prior redemption or payment in full of all of the Bonds.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that Metropolitan (1) receives an opinion of Counsel, addressed to Metropolitan, to the effect that those portions of the Rule which require this Undertaking, or any of the provisions hereof, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the EMMA System.

Section 4.2. Amendment.

(a) This Undertaking may be amended by Metropolitan, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of Metropolitan or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date of this Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the same effect as set forth in clause (2) above, (4) either (i) Metropolitan shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with Metropolitan (such as bond counsel) and acceptable to Metropolitan, addressed to Metropolitan, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Resolutions with

consent of holders of Bonds, pursuant to the Resolutions as in effect on the date of this Undertaking, and (5) Metropolitan shall have delivered copies of such opinion(s) and amendment to the EMMA System.

(b) In addition to subsection (a) above, this Undertaking may be amended and any provision of this Undertaking may be waived by Metropolitan, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Undertaking which is applicable to this Undertaking, (2) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the effect that performance by Metropolitan under this Undertaking as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule and (3) Metropolitan shall have delivered copies of such opinion and amendment to the EMMA System.

(c) To the extent any amendment to this Undertaking results in a change in the type of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of such amendment shall be provided by Metropolitan to the EMMA System.

Section 4.3. Contract; Benefit; Third-Party Beneficiaries; Enforcement.

(a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Undertaking.

(b) Except as provided in this subsection (b), the provisions of this Undertaking shall create no rights in any person or entity. The obligations of Metropolitan to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the holders of 25 percent in aggregate amount of Outstanding Bonds. The holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of Metropolitan's obligations under this Undertaking. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by Metropolitan to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Resolutions and shall not result in any acceleration of payment of the Bonds, and the rights and remedies provided by the Resolutions upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of Federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such Federal securities laws and official interpretations thereof.

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

By: _____
Gary Breaux
Assistant General Manager/Chief Financial
Officer

APPROVED AS TO FORM:

MARCIA SCULLY, General Counsel

By: _____

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