Authorize Execution and Distribution of Remarketing Statement

Finance and Insurance Committee
Item 8-2
February 13, 2012

Overview

- Purpose of Offering Statement (Remarketing Statement or Official Statement)
- Contents
- Preparation Process
- Roles and Responsibilities

The Offering Statement Provides Material Information about the Bonds

- Description of obligations and source of payment
  - Terms of bonds
  - Security and source of payment
  - Risk factors
- Current financial and operating information and reasonable projections
- Provided to investors and potential investors

Contents of Offering Statement

- Body
  - Terms of sale or remarketing
  - Terms of the bonds
  - Bond covenants and sources of payment
  - Risks that may affect payment
  - Revenues and debt service obligations
  - Other matters
- Appendices

Appendix A

- Material operating and financial information
- Significant updates include:
  - 60% initial SWP allocation for 2012
  - Winter 2012 precipitation
  - Developments in litigation
  - January 1 storage of 2.98 maf
  - New MOUs with bargaining units
  - Revenues and expenditures based on proposed biennial budget
  - Modified accrual accounting beginning FY 2013

Other Appendices

- Appendix B – audited financial statements plus unaudited "stubs"
- Appendix C – summary of bond resolutions
- Appendix D – book-entry system for bond registration
- Appendix E – report on service area economy
- Appendix F – bond counsel opinions
- Appendix G – continuing disclosure undertaking

Appendices may be incorporated by reference

Metropolitan is Responsible for Content of Offering Statement

- Must take reasonable care to assure the Offering Statement does not contain an untrue statement of a material fact or omit to state a material fact
- “Material fact” is one that a reasonable investor would consider important in deciding whether to purchase the bonds

Metropolitan Coordinates Efforts by the Financing Team to Meet this Standard

- Staff
- Bond Counsel
- Underwriter’s Counsel
- Financial Advisor
- Underwriters/Investment Bankers
- Board

Staff Manage the Process

- Select qualified outside professionals from pools approved by the Board
- Reasonable reliance on experts to prepare the Offering Statement (bond counsel, financial advisor, underwriters)
- Establish material accuracy of bond terms and financial and operating information described in the draft Offering Statement

Staff Manage the Process (cont.)

- Finance, Water Resources Management, Water Systems Operations, Human Resources and Engineering Services staffs provide information and updates
- Finance staff oversee the accuracy of financial information
- Audit Department audits and reviews tables, statistics and financial data

- Assure compliance with continuing disclosure requirements

Disclosure Role of the Lawyers

- Bond Counsel prepares the Offering Statement
  - Bond terms, security for payment and risks
  - Opines on accuracy of bond description
- General Counsel reviews, prepares Appendix A
- Underwriter's counsel reviews
  - "Due diligence" questions
  - Disclosure opinion to underwriters

Financial Advisor Disclosure Role

- Reviews Offering Statement
- Provides input based on market standards
- Assists staff in analysis of transaction

Disclosure Role of Underwriters

- Securities laws obligate underwriters to have a reasonable basis for determining that the Offering Statement is sufficient
  - Perform reasonable review
  - Conduct reasonable investigation into content, including “due diligence” questions
- Provide to potential investors
- Post the Offering Statement on EMMA

Role of the Board of Directors

- Authorize bond issues (through resolution)
- Receive reports on financings
  - Anticipated financings
  - Recent closings and costs of issuance
- Authorize distribution of Offering Statement
- Must take steps to assure that material financial and operating problems are properly disclosed
  - Ask questions about the process staff has gone through to ensure disclosure of material facts
  - Provide comments and ask questions about material facts

What Kinds of Questions?

- Who prepared the Offering Statement?
- What process do we follow to assure accuracy?
- Did all of the appropriate people review?
- Is the material consistent with information provided to the Board and Committees?
- What are the critical assumptions?
- What risks have been disclosed?
- Why are we issuing these bonds?

Options for Consideration

- Option #1

  Adopt the CEQA determination and

  - Approve the draft Remarketing Statement with changes approved by the General Manager and General Counsel;
  - Authorize the General Manager to execute the Remarketing Statement; and
  - Authorize distribution of the Remarketing Statement in connection with remarketing of the bonds

Options for Consideration

- Option #2

  Adopt the CEQA determination and

  - Approve the draft Remarketing Statement as modified by the Board, with changes approved by the General Manager and General Counsel;
  - Authorize the General Manager to execute the Remarketing Statement; and
  - Authorize distribution of the Remarketing Statement in connection with remarketing of the bonds

Staff Recommendation

- Option #1