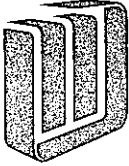


(SEE LETTER DATED MAY 28, 1992--MARKED
REVISED 6/5/92)

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

May 28, 1992

To: Board of Directors (Finance and Insurance Committee--Action)
From: General Manager
Subject: Selection of Underwriters for Issuance of Water Revenue Bonds,
Issue of 1992

Report

As reported to the Subcommittee on Financial Policy in March 1992, staff is proposing a water revenue bond sale of up to \$500 million in July 1992 to raise additional funds to support the District's capital improvement program. Staff and the District's financial advisor, O'Brien Partners, Inc., have performed an evaluation of market conditions and other relevant factors to determine the most appropriate method of sale. The differences between negotiated and competitive sales will be discussed at the Board workshop on June 4, 1992.

Staff and O'Brien Partners, Inc. recommend a negotiated sale using an approved team of underwriters for the following reasons:

- o Volatile tax-exempt bond market;
- o Need to explain effects of new firm revenues, depletion of rate stabilization funds, and the drought;
- o Large, complex bond issue;
- o Past negotiated sales have been successful;

Note that during the first quarter of 1992, statistics on the 102 tax-exempt bond issues in the western states (over \$2.3 billion total volume) show that 77 percent were issued on a negotiated basis.

Your Board has the authority to sell bonds through a negotiated sale upon such terms and conditions as the Board may deem necessary, convenient or desirable. This authority has been exercised successfully in the past for the general

obligation and revenue bond refundings in 1986, for the issuance of the General Obligation Bonds, Series G, in 1989, and for the issuance of the Water Revenue Bonds Issue of 1991. Your Board can approve a negotiated sale of the 1992 revenue bonds by a two-thirds vote of the total vote of the Board.

Metropolitan should be prepared to market revenue bonds as early as July 1992, therefore, in April, the General Manager requested proposals from over 40 national, regional and local underwriters (including emerging business enterprise firms).

The recommended underwriters, listed below, have the sales network capability to stimulate institutional and retail demand nationally as well as in California. The firms were selected based on various criteria which includes national and California rankings; services performed in past competitive and negotiated offerings of Metropolitan; innovative derivative products and experience in these market segments; assistance given staff in developing future financing alternatives; an understanding of the regional economy in Southern California; and an understanding of the District's role in its service area, including its contractual relationships and the challenges and opportunities before Metropolitan, thereby enhancing capability to communicate the District's excellent credit-worthiness to potential investors.

Other criteria considered during the selection process included expertise and commitment of the professionals each firm has assigned to the issue, the marketing program and issue structures proposed, written and oral presentations, and the geographic locations of the team members to enhance communication during the sale process. The following underwriting team is recommended:

| | |
|------------------|---|
| Senior Managers: | Bear Stearns & Co. Inc. Lehman Brothers |
| Co-Managers: | M.R. Beal & Company The First Boston Corporation Kidder, Peabody & Co. Merrill Lynch & Co. J.P. Morgan Securities Inc. Morgan Stanley & Co. Paine Webber Incorporated Smith Barney, Harris Upham & Co. |

The firm of M.R. Beal & Company is an emerging business enterprise and has been included in accordance with your Board's direction in past securities sales. Each of the selected firms has an affirmative action plan in place that complies with Metropolitan's requirements.

The Senior Managers are listed in the national top ten ratings based on negotiated sales volume and number of issues underwritten this year. The underwriters have the financial capacity as a group to absorb the entire issue and assume the risk of holding the bonds should demand for the bonds change after the purchase contract is executed.

A draft preliminary official statement related to the bonds is currently in preparation. A second supplemental resolution to the District's Master Water Revenue Bond Resolution, authorizing issuance of the Water Revenue Bonds, Issue of 1992, is also being prepared and will be submitted for your Board's approval in July. It is recommended that the Board authorize the General Manager to enter into contracts for the services of the underwriters, in form approved by the General Counsel.

As part of the negotiation of contracts with the members of the underwriting team recommended herein, it would be expected that the allocation of any bond issue among them would be resolved, and that the General Manager would negotiate the compensation of the underwriters.

This action is exempt from the provisions of the California Environmental Quality Act since the method of sale and the selection of underwriters do not, in and of themselves, commit the District to undertake particular projects having physical environmental effects.

Assignment of this letter to Board Committees

This letter was referred for action to:

The Finance and Insurance Committee because of its authority to study, advise, and make recommendations with regard to the sale of bonds pursuant to Administrative Code Section 2441(b).

Recommendation

FINANCE AND INSURANCE COMMITTEE FOR ACTION

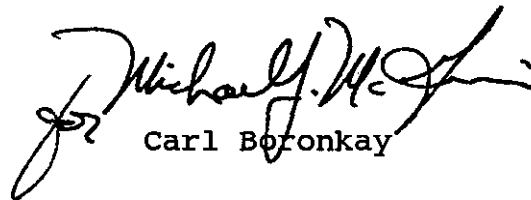
It is recommended that the Board of Directors:

a) Determine, by a two-thirds vote of the total vote of the Board, that the interests of the District and the public interest or necessity require a private (negotiated) sale; and

b) Authorize the General Manager to enter into contracts, in form approved by the General Counsel, for the services of the following underwriters for the sale of the bonds:

Senior Managers: Bear Stearns & Co. Inc.
 Lehman Brothers

Co-Managers: M.R. Beal & Company
 The First Boston Corporation
 Kidder, Peabody & Co.
 Merrill Lynch & Co.
 J.P. Morgan Securities Inc.
 Morgan Stanley & Co.
 Paine Webber Incorporated
 Smith Barney, Harris Upham & Co.


Carl Boronkay