

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

January 5, 1993

To: Board of Directors (Finance and Insurance Committee--Action)

From: General Manager

Subject: Revision of Appropriation No. 638, Marketing Expense for Sale of Water Revenue Bonds, Issue of 1992, to \$710,000, an Increase of \$390,000, to Purchase a Surety Bond to Replace the Water Revenue Bonds, Issue of 1992, Reserve Fund

Report

The Second Supplemental Resolution to the Master Water Revenue Bond Resolution, which authorized the issuance of the 1992 water revenue bonds, provided that the 1992 Reserve Fund could be substituted, in whole or in part, with a Reserve Fund Credit Policy to be deposited with the District's Fiscal Agent. The resolution defines a Reserve Fund Credit Policy as an insurance policy, surety bond, letter of credit or other credit facility. The Board's resolution delegates authority to the General Manager to effect such substitution; however, an increase in Appropriation No. 638, Marketing Expense for Sale of Water Revenue Bonds, Issue of 1992, is required to authorize the expenditure of funds in excess of the General Manager's authority.

The 1992 Reserve Fund currently holds \$19.4 million which was deposited from proceeds of the 1992 bond sale. Substitution of the 1992 Reserve Fund with a Reserve Fund Credit Policy will allow the \$19.4 million, net of the surety bond premium cost, to be transferred to the Revenue Bond Construction Fund to be used for capital improvement financing. This transaction would improve the District's revenue bond capacity by reducing the amount of revenue bonds to be issued in the future. In addition, this substitution will eliminate negative arbitrage the District is currently experiencing with the 1992 Reserve Fund because investment rates are 75 to 100 basis points lower than the borrowing rate being paid on the reserve fund deposit.

In response to requests for proposals initiated by the Finance Division, the District has received a very favorable surety bond commitment from the AMBAC Indemnity

Corporation (AMBAC). AMBAC will provide the surety bond for a one-time premium of 2 percent (\$388,872.42) of the required reserve fund amount plus a base rating agency fee of \$1,500. The cost would be paid from the freed-up reserves. In comparison, the other two proposals received by Metropolitan would have provided the surety bond for 2.2 percent or 2.5 percent of the required reserve fund amount.

The credit rating agencies have been notified of the District's discussions with AMBAC in regard to substitution of the 1992 Reserve Fund and have indicated that should such action be taken the ratings of the 1992 revenue bonds would not be affected. AMBAC is rated AAA by Standard & Poor's Corporation and Aaa by Moody's Investors Service. The commitment from AMBAC expires January 15, 1993.

The recommended action is exempt from the provisions of the California Environmental Quality Act because it can have no possible effect on the environment.


Board Committee Assignment

This letter is referred for action to the Finance and Insurance Committee because of its authority to study, advise and make recommendations with regard to the disposition and investment of funds, pursuant to Administrative Code Section 2441(c).

Recommendation

FINANCE AND INSURANCE COMMITTEE FOR ACTION.

It is recommended that the Board increase Appropriation No. 638, Marketing Expense for Sale of Water Revenue Bonds, Issue of 1992, by \$390,000, to a total of \$710,000 to purchase a surety bond to replace the Water Revenue Bonds, Issue of 1992, Reserve Fund.


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Surety.jg