

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

December 29, 1992

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

From: General Manager

Subject: Selection of Underwriters for Issuance of Water Revenue Refunding Bonds, Issue of 1993, and Waterworks Refunding General Obligation Bonds, Issue 1993

Report

As reported to the Finance and Insurance Committee at its December 1992 meeting, staff is proposing bond sales to refund portions of the outstanding 1986 and 1991 revenue bond issues and portions of the 1970, 1972, 1976, 1986 and 1989 general obligation bond issues to reduce the District's cost of debt. Considering the complex nature of the sales, a volatile tax-exempt bond market, and prior experience with negotiated refunding sales, staff and the District's financial advisor recommend a negotiated sale using approved teams of underwriters.

The recommended underwriters have been used in previous negotiated bond sales of the District. Each firm was evaluated in response to an underwriter selection process concluded in June 1992. Since the potential refundings involve both general obligation and revenue bonds, staff is recommending the use of two teams. Each team will consist of seven firms, including a senior manager, two co-senior managers and four co-managers. To avoid duplication of staff and consultants' work (since the legal documents and the financing schedules overlap), the recommended senior manager and co-senior managers would be the same on both teams. A mix of co-managers is recommended because these firms will not be involved in document preparation.

The recommendation of the underwriters is based on several factors including performance in marketing the 1992 bonds, performance in past negotiated refundings of District debt, analyses prepared for Metropolitan since the last bond sale, understanding of the District's role in its service area, and national rankings. Other criteria considered were the expertise and commitment of the professionals each firm

will assign to the offering, pricing practices, fairness in allocating bonds to members of the underwriting group, and affirmative action plans that comply with Metropolitan's requirements. The recommended teams are shown on Attachment A.

The recommended senior manager, Merrill Lynch & Co., reflects a rotation of firms serving in this capacity from prior sales. Staff believes rotation of senior managers is in the District's long-term interest, considering the frequency with which the District will be issuing debt to meet its Capital Improvement Program financing requirements.

The recommended firms of M. R. Beal & Company (Minority-Owned Business Enterprise) and Smith Mitchell Investment Group Inc. (Woman-Owned Business Enterprise) are emerging business enterprises.

As part of the negotiation of contracts with the recommended underwriting teams, it would be expected that allocations of any bond issue among them would be resolved, and that the General Manager would negotiate the compensation of the underwriters. The underwriters understand that the refundings will only occur if market conditions become favorable. If the sales do not occur, the District would not be responsible for costs incurred by the underwriters, including underwriters' counsel fees.

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 private (negotiated) sales of water revenue refunding bonds and waterworks refunding general obligation bonds; and

b) Authorize the General Manager to enter into contracts, in form approved by the General Counsel, for the services of the underwriters shown on Attachment A for the sale of water revenue refunding bonds and waterworks refunding general obligation bonds.


Carl Boronkay

GDL/MCF:jg
Attachment

underwri.bdl

ATTACHMENT A

**RECOMMENDED UNDERWRITERS FOR ISSUANCE
OF WATER REVENUE REFUNDING BONDS, ISSUE OF 1993,
AND WATERWORKS REFUNDING GENERAL OBLIGATION BONDS, ISSUE 1993**

**Water Revenue
Refunding Bonds**

**Waterworks Refunding
General Obligation Bonds**

Senior Manager: Merrill Lynch & Co.

Merrill Lynch & Co.

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

Bear, Stearns & Co. Inc.
Lehman Brothers

Co-Managers: M. R. Beal & Company
J. P. Morgan Securities Inc.
Morgan Stanley & Co., Inc.
Smith Mitchell Investment
Group Inc.

M. R. Beal & Company
First Boston Corporation
Goldman, Sachs & Co.
Smith Mitchell Investment
Group Inc.