

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

May 3, 1993

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

From: General Manager

Subject: Revision of Appropriation No. 632, Marketing Expense for Sale of Water Revenue Bonds, Issue of 1991, an Increase of \$232,000, to Purchase a Surety Bond to Replace the Water Revenue Bonds, Issue of 1991, Reserve Fund

Report

The First Supplemental Resolution to the Master Water Revenue Bond Resolution, which authorized the issuance of the 1991 Water Revenue Bonds, provided that the 1991 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. 632, Marketing Expense for Sale of Water Revenue Bonds, Issue of 1991, is required to fund the purchase of the Reserve Fund Credit Policy.

The 1991 Reserve Fund currently holds \$11.5 million which was deposited from proceeds of the 1991 bond sale. Substitution of the 1991 Reserve Fund with a Reserve Fund Credit Policy will allow the \$11.5 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 will improve the District's revenue bond capacity by reducing the amount of revenue bonds required to be issued in the future. In addition, this substitution will eliminate negative arbitrage the District is currently experiencing with the 1991 Reserve Fund, since investment rates are 75 to 100 basis points lower than the borrowing rate being paid on the reserve fund deposit.

The AMBAC Indemnity Corporation (AMBAC) has offered to provide a surety bond for the 1991 Reserve Fund on the same terms used for the 1992 Reserve Fund surety bond purchased in early 1993. AMBAC will provide the surety bond

for a one-time premium of 2 percent of the required reserve fund amount (\$229,344.36), plus a base rating agency fee of \$1,500. The cost would be paid from the freed-up reserves.

The credit rating agencies have been notified of the District's discussions with AMBAC in regard to substitution of the 1991 Reserve Fund and the ratings of the 1991 revenue bonds should not be affected by such action. AMBAC is rated AAA by Standard & Poor's Corporation and Aaa by Moody's Investors Service. The commitment from AMBAC expires May 14, 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. 632, Marketing Expense for Sale of Water Revenue Bonds, Issue of 1991, by \$232,000, to a total of \$654,500, to purchase a surety bond to replace the Water Revenue Bonds, Issue of 1991, Reserve Fund.


for General Manager

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