

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

August 26, 1993

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

From: General Manager

Subject: Authorization to File Action Validating Remaining Waterworks  
Bonds, Election 1966

Report

An issue has arisen concerning the District's authorization to issue the remaining general obligation bonds authorized by the voters in 1966. Staff recommends filing a validation action in superior court in Los Angeles to conclusively resolve this issue.

In 1966, acting pursuant to Sections 200-230 of the Metropolitan Water District Act (Act) and California law, the District held a special election on Proposition W, at which a majority of the qualified electors voted to authorize the District to issue general obligation bonded indebtedness in the maximum principal sum of \$850 million. From 1967 through 1989, the District issued general obligation bonds authorized by the voters in 1966 in an aggregate principal amount of \$800 million.

California law and the Act permit the District to issue refunding bonds for the purpose of retiring outstanding general obligation bonds, provided the District can demonstrate that the total net interest cost to maturity of the refunding bonds plus the principal amount of the refunding bonds is less than the total net interest cost on the bonds to be refunded plus the principal amount of the bonds to be refunded. Refunding bonds may be issued in an amount sufficient to provide for the redemption of the refunded bonds, payment of any premium required as part of the redemption price of the refunded bonds and costs of the refunding.

The District has refunded, in whole or in part, several series of bonds authorized by the voters in the 1966 election, as well as some of the bonds issued to refund those general obligation bonds. Gross debt service savings to the District resulting from such refundings totals \$56,067,190.

The principal amount of bonds issued to refund outstanding general obligation bonds authorized in the 1966 election presently exceeds the principal amount of the refunded bonds by \$20,575,000. Although California law is clear as to the legal authority for the District to issue refunding general obligation bonds without the requirement of an additional election, the law is less clear on the point of whether the \$20,575,000 increase in principal amount of the refunding bonds over the aggregate principal amount of the refunded bonds counts against the remaining \$50 million of Metropolitan's general obligation bond authorization.

Section 860 of the California Code of Civil Procedure provides that a public agency may file an action for the purpose of validating its authority to issue bonds. A validation action may be brought in superior court within 60 days following authorization of issuance of the bonds.

A summons directed to all persons interested in the matter must be published, and any interested person may file an answer to the complaint. The trial will be entitled to an expedited scheduling. Any appeal must be filed within 60 days after entry of judgment and if no appeal is made within that sixty-day period (or if the matter is appealed and the judgment is affirmed) the matter is "forever binding and conclusive."

The proposed action is exempt from the provisions of the California Environmental Quality Act because there is no possibility that it would have a significant effect on the environment.

#### Board Committee Assignments

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 sale of bonds, pursuant to Administrative Code Section 2441(b); and

The Legal and Claims Committee because of its authority to study, advise and make recommendations with regard to litigation and claims brought by or against the District, pursuant to Administrative Code Section 2461(a).

Recommendation

**FINANCE AND INSURANCE AND LEGAL AND CLAIMS COMMITTEES FOR ACTION.**

It is recommended that the Board of Directors authorize the General Counsel to file an action in superior court to validate its authorization of the issuance of General Obligation Bonds, 1966 Election, in the maximum aggregate principal amount of \$50 million.



John R. Wodraska

SBB:gm  
bdltr\valid66.bnd