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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

APR 12 1994

Harold E. Duff
EXECUTIVE SECRETARY

March 14, 1994

To: Board of Directors (Finance and Insurance Committee--Information)
From: General Manager
Subject: Rebatable Arbitrage-Appropriation Number 680

Report

On June 13, 1989 the Board adopted Resolution 8230 authorizing the issuance of Waterworks Bonds, Election 1966, Series G General Obligation Bonds. In this resolution the Board also approved the execution of the Nonarbitrage Certificate by the District upon the issue of the Series G bonds. One important provision of the Nonarbitrage Certificate was the annual calculation of rebatable arbitrage and the payment of 90% of the rebatable arbitrage to the Internal Revenue Service (IRS) at the end of each five year period after the issue date of the bonds, continuing until the retirement date of the bonds.

As a result of the Internal Revenue Code of 1986, interest earned on the proceeds of tax-exempt bonds issued after 1986 are subject to rebatable arbitrage. Rebatable arbitrage represents interest earnings on bond funds that exceed debt service interest payments for the bonds issued. Under Resolution 8230 the Board authorized the payment of funds representing the District's liability for rebatable arbitrage for the Series G Bonds and appropriation number 680 has been established to handle the current and future payments of rebatable arbitrage.

The Series G bonds were issued on June 1, 1989 in the amount of \$215,000,000. The resulting bond proceeds were deposited into the 1966 Bond Construction Fund. Pursuant to the Nonarbitrage Certificate the District has on March 1 of each bond year calculated the rebatable arbitrage due the IRS with respect to the Series G bonds and transferred the appropriate funds to the Excess Earnings Fund, a trust fund established in 1989. The bond proceeds were expended over a three year period for the acquisition and construction of public improvements and Works of the District. During this period the Construction and Excess Earnings Funds earned approximately \$26.2 million in interest. Of this amount, approximately \$7.013 million was determined to be the District's liability for rebatable arbitrage as of March 1, 1994.

Staff has hired Orrick, Herrington, and Sutcliffe, a legal firm providing arbitrage compliance services, to verify the District's rebatable arbitrage calculations for the past four years, to perform the fifth year's computation, and to prepare the necessary tax documents to file with the Internal Revenue Service. Orrick, Herrington and Sutcliffe is in the process of confirming the District's liability for rebatable arbitrage, which we estimate to be approximately \$7.013 million as of March 1, 1994. The required payment is mandated by the IRS to be 90 percent of the amount due or \$6.312 million in the case of the District. The necessary tax documents and payment will be filed with the IRS no later than April 29, 1994.

Board Committee Assignment

This letter is referred for information to the Finance and Insurance Committee because of its authority concerning the issuance of District debt pursuant to Administrative Code Section 2441 (b).

Recommendation

For information only.


John R. Wodraska

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