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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

David E. Duff
EXECUTIVE SECRETARY

May 22, 1995

To: Board of Directors (Finance and Insurance Committee--Action)
From: General Manager
Subject: Liquidity Facility for Expansion of the Commercial Paper Program

RECOMMENDATION:

It is recommended that the Board of Directors authorize the General Manager to enter into an agreement, in form approved by General Counsel, with Westdeutsche Landesbank Girozentrale, New York Office, to provide a \$140,000,000 line of credit to support issuance of additional commercial paper notes under the General Manager's existing \$200,000,000 authorization.

John R. Wodraska
General Manager

Submitted by:

Lambertus H. Becker
Lambertus H. Becker
Chief Financial Officer

Concur:

John R. Wodraska
John R. Wodraska
General Manager

EXECUTIVE SUMMARY:

It is planned to increase the size of the commercial paper program from the \$60 million currently outstanding to the Board authorized level of \$200 million. The \$60 million was issued without a backup credit facility; however, additional commercial paper will require a backup line of credit in order to achieve the highest short-term ratings.

A request for proposals was issued in April 1995 and 14 responses were received. The best proposal was from Westdeutsche Landesbank Girozentrale, New York Branch (West LB), a highly rated German bank. They will provide a 5-year line of credit for a fee of 8.5 basis points per year on the outstanding balance.

The proposals ranged from 8.5 basis points to 30 basis points per year, with the second lowest proposal being 10 basis points.

A revolving credit agreement is being negotiated and it is recommended that the General Manager be authorized to execute the agreement with West LB, in form approved by General Counsel.

DETAILED REPORT:

In May 1991, the Board adopted Resolution 8322 authorizing the issuance of \$200 million in short-term revenue certificates (commercial paper). In June 1991, \$60 million in commercial paper was issued and is currently outstanding. Because of Metropolitan's strong financial condition the two major credit rating agencies gave the \$60 million issue their highest short-term ratings (A1+,P1) without requiring a backup liquidity facility (line or letter of credit).

Commercial paper is a short-term (1-270 days) security with fixed interest rates secured by pledged revenues with no put or call feature. Tax-exempt Commercial paper rates are generally 250 to 300 basis points below the rates on municipal long-term debt. The District has lowered its overall cost of debt by maintaining a commercial paper program.

It is now planned to increase the size of the commercial paper program to reimburse the General Fund \$30.5 million for the prepayment of the Allen McColloch Pipeline variable rate certificates of participation, assumed by Metropolitan, and to provide additional capital funding. The credit rating agencies (Moody's and Standard & Poor's) have informed the District that additional commercial paper, over the \$60 million currently outstanding, will require a backup liquidity facility in order to achieve the highest short-term ratings. Staff issued a request for proposals to provide a liquidity facility for up to \$140 million in additional commercial paper in April 1995. Responses were received from 14 providers.

The proposals have been evaluated, with assistance from the District's financial advisor, and Westdeutsche Landesbank Girozentrale, New York Branch, (West LB) was selected as successful bidder. West LB will provide a line of credit for 5 years to support up to \$140 million in additional commercial paper for a fee of 8.5 basis points per year. The line of credit will cover both interest and principal. The annual fee would amount to \$125,400 per year if the entire \$140 million were issued. If less than \$140 million is issued, West LB will charge 5 basis points on the authorized but unissued portion. West LB is highly rated by the credit rating agencies with short-term ratings of P1/A1+ and long-term ratings of Aa1/AA+. For comparison, the 14 proposals ranged from an annual cost of 8.5 basis points to 30 basis points for a 5-year line of credit. The second lowest bid was for 10 basis points.

A revolving credit agreement is being negotiated and it is recommended that the Board authorize the General Manager to execute the agreement with West LB, in form approved by General Counsel. Funds will be included in the 1995-96 budget to pay the estimated annual fees.

The recommended action is exempt from provisions of the California Environmental Quality Act because it can be seen with certainty that it can have no significant effect on the environment.