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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOV 14 1995


EXECUTIVE SECRETARY

November 2, 1995

To: Board of Directors (Finance & Insurance Committee--Action)
From: General Manager
Subject: Extension of Authority to Issue Refunding Bonds Under Board Resolutions 8386 and 8387, and Appropriation No. 721, in the Amount of \$411,000 to Pay Marketing Expenses

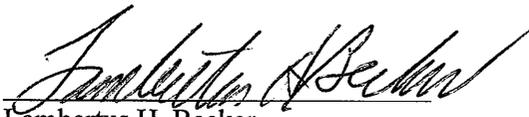
RECOMMENDATION:

It is recommended that the Board of Directors:

- 1) By a vote of two-thirds of the total vote of the Board, extend the authority of the Ad Hoc Committee to negotiate the sale of refunding bonds under Board Resolutions 8386 and 8387, through December 31, 1996, and
- 2) Authorize Appropriation No. 721, in the amount of \$411,000 for marketing expenses arising from the potential sale of additional refunding bonds, to be paid from the General Fund.

John R. Wodraska
General Manager

Submitted by:


Lambertus H. Becker
Chief Financial Officer

Concur:


John R. Wodraska
General Manager

EXECUTIVE SUMMARY:

In January 1993, your Board adopted Resolutions 8386 and 8387 authorizing the issuance of water revenue and general obligation refunding bonds. At that time, your Board specified that the authorizations would remain in effect through December 31, 1993 to give the Ad Hoc Committee flexibility to take advantage of multiple refunding opportunities should they occur throughout the year. The Chairman of the Board, the Chairman of the Finance and Insurance Committee of the Board, and the General Manager or his designee, acting jointly, comprise the Ad Hoc Committee.

Subsequently, four refundings of outstanding bonds were accomplished during 1993, resulting in \$46.9 million of gross interest savings. In December of 1993, your Board extended the Ad Hoc Committee's authority to negotiate additional refundings during calendar year 1994 in anticipation of continued favorable market conditions. Due to unfavorable market conditions, no refundings occurred during 1994.

It now appears that additional refunding opportunities may develop near the end of 1995 or during 1996, based on your Board's guidelines of achieving at least 5 percent present value savings for advance refundings or 3 percent present value savings for current refundings.

It is recommended that the Ad Hoc Committee's authority to negotiate the refunding of additional outstanding bonds of the District be extended to December 31, 1996, to take advantage of potential favorable financial conditions.

Should market conditions improve to levels that meet the Board's savings guidelines, an appropriation will be required to pay marketing expenses for another refunding bond issue. Based on past refunding sales and consultation with the District's financial advisor, marketing expenses are estimated to be approximately \$411,000.

DETAILED REPORT:

In January 1993, your Board adopted Resolution 8386 authorizing the issuance of waterworks general obligation refunding bonds and Resolution 8387 authorizing the issuance of water revenue refunding bonds. At that time, your Board specified that the authorizations would remain in effect through December 31, 1993 to give the Ad Hoc Committee flexibility to take advantage of multiple refunding opportunities should they occur throughout the year. The Chairman of the Board, the Chairman of the Finance and Insurance Committee of the Board, and the General Manager or his designee, acting jointly, comprise the Ad Hoc Committee.

In February 1993, subject to the guidelines set by your Board, Metropolitan issued \$279.7 million of general obligation refunding bonds and \$168.8 million of revenue refunding bonds, realizing gross interest cost savings of \$35.6 million. In June 1993, Metropolitan issued \$78.3 million of general obligation refunding bonds and \$89.6 million of revenue refunding bonds, for additional gross interest cost savings of \$11.3 million.

In December 1993, your Board extended authority pursuant to Resolutions 8386 and 8387, through calendar year 1994, for the Ad Hoc Committee to negotiate the sale of additional refunding bonds; however, due to unfavorable market conditions, no additional bonds were issued during 1994.

The District's overall cost of debt is very low, about 5.6 percent, leaving few candidates for refundings of outstanding debt. It now appears, however, that additional refunding opportunities may develop near the end of 1995 or during 1996 for the remaining bonds of the 1991 Revenue Bond Issue, based on your Board's guidelines of achieving at least 5 percent present value savings for advance refundings or 3 percent present value savings for current refundings. An underwriting team has been assembled, led by Smith Barney, Harris Upham & Co., and the necessary documentation has been substantially completed in order that another refunding can be completed on short notice.

In order to maximize the financial benefits that may become available, it is recommended that your Board again extend authority pursuant to Resolutions 8386 and 8387 for the Ad Hoc Committee to negotiate on behalf of the District the structure of the bond issues and the terms and conditions of the sale of the bonds, and to negotiate the sale of the bonds at a private sale to one or more purchasers without the necessity of public or competitive bidding. In each of such Resolutions your Board found and determined that the interests of the District and the public interest and necessity require that the provisions of Section 225 and 226 be waived, so that the refunding bonds may be sold through negotiated sale.

An appropriation is required to charge marketing expenses incurred in connection with the potential refund issue. Marketing expense estimates are based on costs incurred to date, past sales, and consultation with the District's financial advisor.

It is estimated that an appropriation in the amount of \$411,000 will be required to cover expenses:

Bond Counsel/Co-Counsel	\$150,000
Moody's Investors Service	30,000
Standard and Poor's Ratings Group	30,000
Typesetting, Printing, Mailing	100,000
Market Development	15,000
Verification Agent	15,000
Auditing Services	11,000
Contingency	15,000
Surety Bond	<u>45,000</u>
Total	\$411,000

The proposed actions are exempt from the provisions of the California Environmental Quality Act because it can reasonably be determined that there is no possibility that they could have a significant effect on the environment.