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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MAR 12 1996

Deon Chin
for EXECUTIVE SECRETARY

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February 15, 1996

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

From: General Manager

Submitted By: Lambertus H. Becker
Chief Financial Officer

Lambertus H. Becker
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Subject: Refunding of Municipal Water District of Orange County Adjustable/Fixed Rate Refunding Certificates of Participation (Allen-McColloch Pipeline Project)

RECOMMENDATION(S)

It is recommended that your Board: (1) approve the refinancing by Municipal Water District of Orange County of the outstanding 1992 Certificates and amendment of the Master Lease and subleases relating to the Allen-McColloch Pipeline, on the terms and subject to the conditions stated in this Board letter; and (2) authorize the General Manager to execute such agreements, certificates and other documents as may be necessary to evidence such approval, on the terms set forth in this letter and in a form approved by the General Counsel.

EXECUTIVE SUMMARY

Under the Agreement for Sale and Purchase of Allen-McColloch Pipeline (Metropolitan Agreement No. 4623), dated as of July 1, 1994 (Purchase Agreement), Metropolitan acquired the Allen-McColloch Pipeline (AMP) from the Municipal Water District of Orange County (MWDOC). Metropolitan's acquisition of the AMP is subject to the prior lien of two certificates of participation (COP) financings by MWDOC, a series of COPs issued in 1989 to finance flow augmentation improvements to the AMP and the above-referenced COPs issued in 1992 to refinance the COPs issued for the construction of the AMP itself.

Under the Purchase Agreement, MWDOC retained liability for the 1992 COPs and reserved the discretion to provide for fixing of the interest rate with respect to variable

rate 1992 COPs, without any necessity for consent from Metropolitan. However, MWDOC has determined that it would obtain greater savings in debt service and administrative costs by issuing new certificates to refinance all of the outstanding 1992 COPs. The refinancing also permits covenants in the existing documents to be eliminated, to the advantage of both Metropolitan and MWDOC. This refinancing requires Metropolitan's consent.

The terms of the refinancing require amendment and restatement of the Master Lease of the AMP to MWDOC and MWDOC's subleases to its member agencies participating in the AMP. Drafts of the Amended and Restated Master Lease, subleases and Trust Agreement have been provided to Metropolitan Legal Department staff for review and their comments have been incorporated. MWDOC and Metropolitan will accept their respective rights and perform their respective obligations under the amended documents to the same extent as under the prior documents, and MWDOC will covenant to pay all amounts due for principal, interest, trustees fees and other costs and fees required to be paid under the financing documents relating to the refunding COPs.

DETAILED REPORT

Under the Agreement for Sale and Purchase of Allen-McColloch Pipeline (Metropolitan Agreement No. 4623), dated as of July 1, 1994 (Purchase Agreement), Metropolitan acquired the Allen-McColloch Pipeline (AMP) from the Municipal Water District of Orange County (MWDOC). Metropolitan's acquisition of the AMP is subject to the prior lien of two certificates of participation (COP) financings by MWDOC, a series of COPs issued in 1989 to finance flow augmentation improvements to the AMP and the above-referenced COPs issued in 1992 to refinance the COPs issued for the construction of the AMP itself.

The purchase price for the AMP consisted of an initial payment of \$11 million plus interest and reimbursement of certain financing costs, plus annual installments of \$4.6 million per year commencing on July 1, 1994, through and including July 1, 2006, plus all amounts due from and after July 1, 1994 with respect to the 1989 COPs. MWDOC retained liability for payment of the 1992 COPs, with the ability to apply the \$4.6 million annual payment from Metropolitan for debt service on those COPs.

The 1992 COPs were issued with some COPs in a variable rate mode and other COPs bearing interest at a fixed interest rate. Under the Purchase Agreement, MWDOC retained the discretion to provide for fixing of the interest rate with respect to variable rate 1992 COPs, without any necessity for consent from Metropolitan. However, MWDOC has determined that it would obtain greater savings in debt service and administrative costs by issuing new certificates to refinance all of the outstanding 1992 COPs. The refinancing also permits covenants in the existing documents to be eliminated, to

the advantage of both Metropolitan and MWDOC. This refinancing requires Metropolitan's consent.

The terms of the refinancing require amendment and restatement of the Master Lease of the AMP to MWDOC and MWDOC's subleases to its member agencies participating in the AMP, as well as execution of a new Trust Agreement. The Purchase Agreement also provides that amendments of the Master Lease and subleases are subject to Metropolitan's prior consent. Drafts of the Amended and Restated Master Lease, subleases and Trust Agreement have been provided to Metropolitan Legal Department staff for review and their comments have been incorporated. These documents and subleases state that they are subject to the terms of the Purchase Agreement and otherwise comply with its terms.

As part of the refinancing, MWDOC and Metropolitan will accept their respective rights and perform their respective obligations under the amended documents to the same extent as under the prior documents, and MWDOC will covenant to pay all amounts due for principal, interest, trustees fees and other costs and fees required to be paid under the financing documents relating to the refunding COPs. Approval of the MWDOC refinancing will result in no additional cost to Metropolitan.

In July, 1995, Metropolitan provided for prepayment of the 1989 COPs which were in a variable rate interest mode. The remaining 1989 COPs, which bear interest at a fixed interest rate, will be prepaid on July 1, 1996, from proceeds of the 1989 COPs originally set aside for construction of flow augmentation improvements.