FILED
by the Board of Directors of
The Metropolitan Water District
of Southern California
at its meeting held

MAR 12 1996

[signature]
for EXECUTIVE SECRETARY

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

9-6

February 21, 1996

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

From: General Manager [signature]

Submitted by: Lambertus H. Becker
Chief Financial Officer [signature]

Subject: Report on Sale of Water Revenue Refunding Bonds, 1996 Series B Issue

RECOMMENDATION(S)

For information only.

REPORT

On February 14, 1996, pursuant to your Board's authorization, Metropolitan sold $258.9 million Water Revenue Refunding Bonds. The negotiated sale accomplished the partial advance refunding of the Water Revenue Bonds, Issue of 1991, and the current refunding of all of the outstanding Waterworks Revenue Refunding Bonds, Issue of 1978. The total refunding will generate cost savings of $24.3 million, the net present value of these savings will be $12.8 million.

The refunding bonds were issued at a true interest cost of 5.04 percent. Net present value savings of the total sale were 5.147 percent of net refunding proceeds. Net present value savings on the advance refunding of the 1991 bonds was 5.668 percent ($8.4 million), exceeding your Board's goal of 5 percent for advance refundings, and the net present value savings on the current refunding of the 1978 bonds was 4.386 percent ($4.4 million), exceeding your Board's goal of 3 percent for current refundings.

This sale marks the culmination of over two years of cooperative effort among staff, our financial advisor, co-bond counsel, and disclosure counsel. The refunding bonds were rated double-A by both Moody's Investors Service, Inc. and Standard and Poor's Ratings Group. Attachments 1 and 2 show the rating analyses prepared by the rating agencies.

The senior manager for the sale was Smith Barney Inc. with Bear, Stearns & Co. Inc., Grigsby Brandford & Co., Inc., and PaineWebber Inc. serving as co-senior managers. Co-bond counsel was O'Melveny & Myers and Robinson & Pearman, disclosure counsel was Hawkins, Delafield & Wood, and financial advisor on the deal was O'Brien Partners, Inc. The bonds were insured as to payment of principal and interest by MBIA Insurance Corporation.

As shown on the attached charts, the Bond Buyer's 25-Bond Revenue Bond Index (Attachment 3) and Bloomberg's 30-Year Tax-Exempt Insured Revenue Bond Index (Attachment 4), the timing of the negotiated sale was very favorable. The favorable conditions were attributed to a lack of supply in the municipal markets on the morning of February 14, 1996, which resulted in a significant market rally from the date of the Finance and Insurance Committee meeting two days earlier when the market was 15 basis points off the level needed for the sale to occur. The District was able to take advantage of this condition because of advance planning and preparation which put us in position for quick entry into the market. In addition, the District's true interest cost of 5.04 percent was approximately 30 basis points below Bloomberg's 30-year tax-exempt insured revenue bond index at the time of sale, attesting to the District's strong financial condition and strong market acceptance.

Attachments

CGP:jg
96bsale

Moody's Municipal
Daily Rating Recap

Metropolitan Water District of Southern California
Rating date: January 4, 1996

Moody's rating: Aa
Junior Lien Water Revenue Bonds

Sale: $260,000,000
Date of Sale: January 9
Type: Competitive
Security: Pledge of net operating revenues of the district, as defined in the Master Resolution, subordinate to the lien of prior lien bonds.
Use of Proceeds: Refunding of certain outstanding prior lien waterworks revenue bonds and junior lien water revenue bonds.
Last Rating change: No change.
Credit Comment: The Metropolitan Water District of Southern California is issuing junior lien water revenue refunding bonds for debt service savings on a portion of both its prior lien and junior lien bonds. The **Aa** rating on these bonds is confirmed, based on the following credit factors.

Metropolitan's Member Agencies Provide Water To Nearly Half The State

The District wholesales water to 27 member agencies, serving 16 million people in six Southern California counties. The economy is diversified and recovering from recession. Largest customers are themselves primarily wholesaling metropolitan water districts.

Financial Position Remains Strong; New Rate Structure Furthers Stability

Metropolitan has maintained a strong financial position, as evidenced by substantial rate stabilization and working capital reserves, even following six years of drought. Its new rate structure will somewhat reduce reliance on water sales for revenues.

Debt Service Coverage Remains Ample

Coverage of revenue bond debt is currently 5.8 times, although will narrow towards the median with significant additional borrowing. Including subordinate capital payments to the state within a coverage calculation results in 1.35 times coverage in 2000.

The District Supplies Half Of Region's Water

Metropolitan delivers water from the State Water Project and Colorado River, supplying approximately 50% of all water consumed in its service area. The District has reduced its capital program and operating expenses to moderate future rate increases.

The District Is Undertaking An Ambitious Capital Program

Metropolitan's five-year program calls for nearly $3.4 billion, primarily to improve reliability of water supply. Major projects include construction of new 800,000 acre-foot Eastern Reservoir, holding six months water supply, and new eastside feeder line.

Uncertainty Concerning Long-Term Supplies Poses Significant Challenges

While near-term supplies appear adequate, loss of certain rights to Colorado River water, environmental pressures on the Sacramento Delta, and reduced supply to Los Angeles from Mono Lake will require continued development of supply and storage.

Acquisition Of Alternate Water Source By San Diego Could Reduce Sales

Metropolitan Water District of Southern California (continued)

The San Diego Water Authority, Met's largest customer, is negotiating with the Imperial Irrigation District to purchase up to 500,000 acre-feet of water. The likelihood of this purchase occurring at this level is uncertain, but could reduce Met's water sales.

analyst: David Brodsly
(415) 274-1739

OUTLOOK An upgrade is contingent on continued structural budgetary balance in light of proposals to reorganize Massachusetts' government and reduce taxes in an environment of increased spending pressure, maintenance of the overall debt burden at current levels, effective management and control of the capital plan, and continued progress in reducing the substantial unfunded pension liability.

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Analysts: Brad Driver, San Francisco (415) 765-5014, Peter Bianchini, San Francisco (415) 765-5009

58,BB

RATING ASSIGNED

$260 mil. water rev. rfdg. bnds. ser. 1996B	AA

RATINGS AFFIRMED

$211.285 mil. waterworks rfdg. rev. bnds. closed sr. lien bnds. ser. 1978 and 1986	AA
$1.135 bil. water rev. and rfdg. bnds. ser. 1991, 1992, 1993A, 1993B, and 1995A	AA
$850.5 mil. waterworks G.O. bnds. ser. 1966A-G, 1986, 1993A1-A3, and 1993B	AAA
$200 mil. CP	A-1+

OUTLOOK: STABLE

LONG/SHORT

The long-term rating on Metropolitan Water District of Southern California's bonds reflects:

- The strength and diversity of the six-county service area,
- The essentiality of service and water supply,
- Strong financial performance as evidenced by total fixed coverage of at least 1.19 times through 1994,
- The district's new rate structure (adopted by the board in March 1995), which will provide the district with firm revenues that will reduce significant fluctuations in future rate increases; and
- The Bay Delta and Monterey Agreements, which improve the district's future water supply reliability.

The district's long-term ratings also reflect the district's large $4.1 billion capital improvement program and significant off-balance-sheet debt associated with the state water project *(see analysis in June 26, 1995 CreditWeek Municipal).*

The district's commercial paper series A and B ratings are supported by the district's strong internal liquidity.

The district's service area includes 27 member agencies located in six-counties of Southern California. The district provides about 60% of the water supply in the service area and is expected to provide nearly all the water required for the anticipated increase in demand. Also, Standard & Poor's is aware of the recent memorandum of understanding between San Diego County Water Authority and Imperial Irrigation District for the purchase of up to 500,000 acre feet of water. While this agreement may ultimately affect the district's total water sales over the long term, Standard & Poor's does not see an immediate credit impact. Standard & Poor's will continue to monitor the agreement as it develops.

OUTLOOK The stable outlook reflects prudent management by the district's staff and board, as well as continued resource development to meet future demand. The outlook also reflects the district's enhanced reliability as a result of the Bay Delta Agreement.

MONTANA DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

Analysts: Barbara Ann Bych (212) 208-1821, David Hitchcock (212) 208-1838

RATING ASSIGNED

$14.55 mil. coal severance tax rev. rfdg. (water dev. prog.) ser. 1996A	AA-

RATINGS AFFIRMED

$19.305 mil. coal severance tax rev. (wtr. dev. prog.) ser. 1987C, 1992A, B	AA
$21.735 mil. coal severance tax rev. bnds. (Broadwater Power Proj.) ser. 1991A rfdg.	AA-

RATING WITHDRAWN

$12.130 mil. coal severance tax rev. (water dev. prog.) ser. 1989A and 1990B	N.R.

OUTLOOK: STABLE

LONG TERM

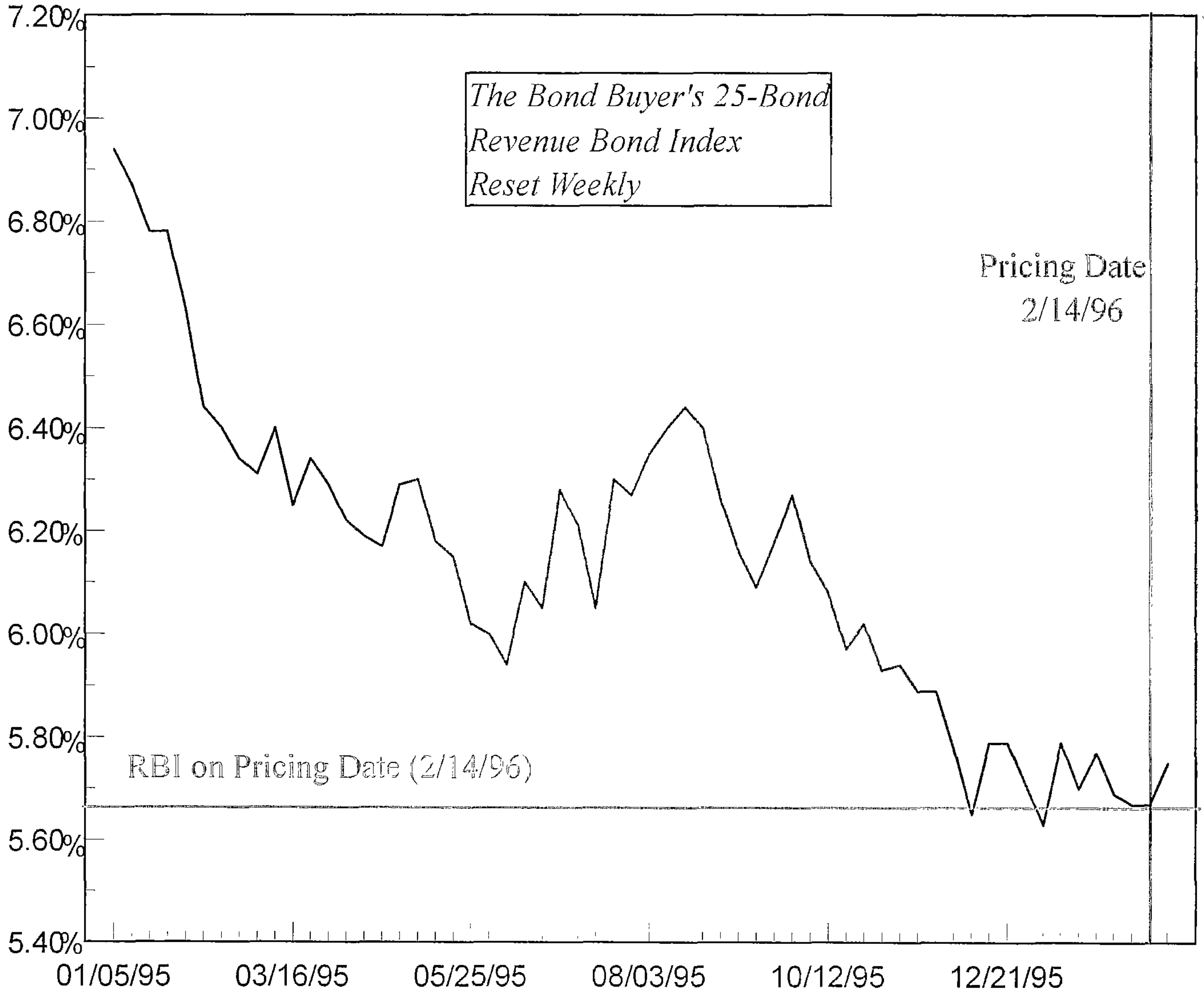
The ratings on Montana Department of Natural Resources & Conservation's bonds reflect the security provided by a pledge of 50% of the state's coal severance tax revenues deposited in the trust fund (generating $20.2 million in 1995), water loan program repayments, and Broadwater Power project revenues all totaling $25.408 million in 1995. The rating also is based on 3.40 times (x) coverage of maximum future debt service generated from coal severance tax revenues in 1995, down from 19x in 1985, but up slightly from 2.91x in 1993. Coverage should remain near this level, based on projections for production, average price under coal contracts, and tax rates.

While revenues provide adequate coverage at about 3.0x, maintenance of the 'AA-' rating reflects the heightened inflow of water loan repayments from municipal entities and the Broadwater Power Project cogeneration agreement revenues boosting coverage to 4.28x in 1995.

Other factors include stabilization of coal tax rates since 1991. This marks the end of a four-year decline, to 15% from 30%, and places Montana in a more competitive tax rate position with other leading coal producing states. Its tax rate still remains above Wyoming's, its biggest competitor. Also, a strong historical additional bonds test requires average coal tax revenues for the prior three years, and water project loan repayments (up to 50% of maximum future debt service) provide 2.0x coverage of maximum future debt service outstanding and proposed.

Offsetting factors include the sensitivity of coal pricing and availability, compared with competing fuels, and potential for future debt issuance with $25 million remaining authorized but unissued to fund additional water development projects. By June 1996, the department anticipates issuance of a $5 million issue to fund additional water projects. In 1995, the legislature enacted House Bill 343, which through the year 2002, exempts about two million tons of coal per supplier from the severance tax if used as feedstock in a coal enhancement facility. The state projects that 450,000 tons will not be subject to the tax during 1996-1997. While this poses no immediate concern to the rating, should the legislature grant further tax exemptions, which measurably impact tonnage subject to the tax, the rating could be affected negatively. Proceeds from this issuance will be used to refund a portion of outstanding series 1988, 1989, 1990 bonds and initiate three

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Water Revenue Refunding Bonds, 1996 Series B



	Aggregate	Issue of 1991	Issue of 1978
Gross Savings	$24.3	$18.6	$5.4
Present Value Savings	$12.8	$8.4	$4.4
Present Value Savings As % of Refunding Proceeds	5.147%	5.668%	4.386%

February 22, 1996

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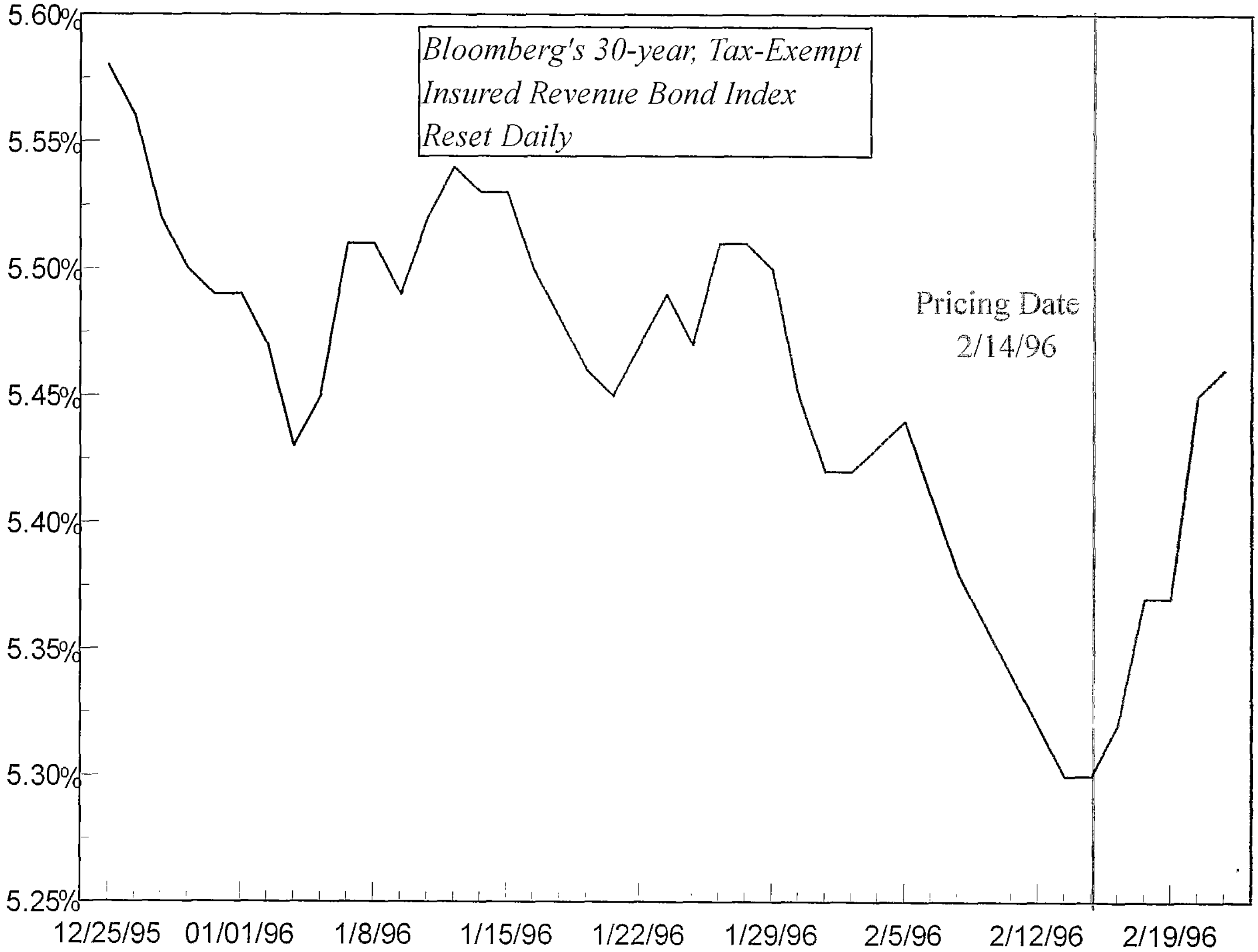
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Water Revenue Refunding Bonds, 1996 Series B



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