



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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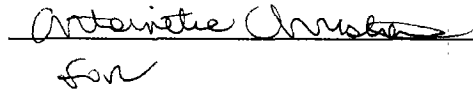
April 21, 1997

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

**From:** General Manager



**Submitted by:** Lambertus H. Becker  
Chief Financial Officer

  
for

**Subject: Re-Authorization for the General Manager to Purchase  
Metropolitan Bonds in the Secondary Market**

## **RECOMMENDATION(S)**

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It is recommended that the Board of Directors re-authorize the General Manager to purchase up to \$75 million of Metropolitan bonds in the secondary market subject to the conditions described in the Detailed Report section of this letter. This re-authorization is effective immediately, and will expire on June 30, 1998. It is also recommended that if bonds are purchased the Pay-As-You-Go Fund (PAYG) would be used as the funding source.

## **DETAILED REPORT**

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In September 1995 your Board approved the 1995 update to the Long Range Finance Plan (LRFP) which included a recommendation authorizing the General Manager to purchase Metropolitan bonds in the secondary market subject to the following conditions:

- maximum purchase price not to exceed 100 percent of par value;
- no restrictions on maturity dates of the bonds subject to purchase;
- aggregate amount of the authorization not to exceed \$75 million;
- purchased bonds must be canceled and retired, and may not be held for investment or resold;
- the authorization was valid for twelve calendar months, following the month of adoption; and
- a report would be presented to the Board in the month following each use of the authority.

The reason for this authority was to allow Metropolitan to take advantage of certain market conditions whereby outstanding Metropolitan debt would sell at a discount to par for reasons generally unrelated to Metropolitan. This was true in the period immediately after the Orange County bankruptcy filing when, due to market uncertainty, the debt of many California issuers, including certain Metropolitan debt, sold at a discount.

The authorization to purchase Metropolitan bonds in the secondary market expired in August 1996 without use of this authority. Market conditions for Metropolitan bonds in the secondary market that existed throughout the authorization period (September 1995 to August 1996) did not offer the District the opportunity to take advantage of such authority.

However, based upon current secondary market conditions certain of Metropolitan's outstanding bonds may offer purchase opportunities for Metropolitan to take advantage of this authorization. Buyback of these bonds would reduce outstanding debt of the District and increase equity of the District. For example, Metropolitan could purchase an outstanding bond in the principal amount of \$100 at 95% of par value, reducing cash by \$95 and retiring \$100 of debt. The \$5 differential would be shown on the financial statements as an increase in non-operating income which would increase District equity.

Re-authorization by the Board of this authority will increase Metropolitan's flexibility in management of its debt obligations. Therefore, it is recommended to re-authorize the General Manager to purchase Metropolitan bonds in the secondary market subject to the same conditions noted earlier, except that the authorization would be effective immediately and will expire on June 30, 1998. It is also recommended that the PAYG Fund be used to make these purchases. The PAYG Fund would be used as the funding source because its main purpose is to reduce outstanding District debt.

The recommendation made in this letter is exempt from the California Environmental Quality Act (CEQA) by Public Resources Code Section 21080 (b) (8) since it constitutes the creation of a governmental funding mechanism which does not involve commitment to any specific project which may result in a potentially significant physical impact on the environment.