



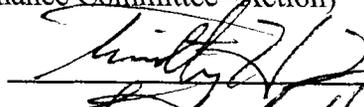
MWD

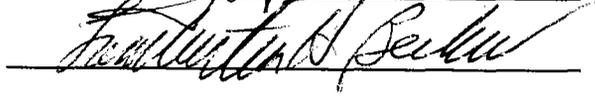
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-8

December 16, 1997

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

From: *for* General Manager 

Submitted by: Lambertus H. Becker, Chief
Financial Officer 

Subject: Extension of Authority to Issue Refunding Bonds Under Board Resolutions 8386 and 8387, and to Pay the Costs of Issuance

Reference: Appropriation No. 15315 - Initial Funding

RECOMMENDATION(S)

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, 1998 with the guidelines of achieving at least a 3 percent present value savings for current refundings and a target of 5 percent present value savings for advance refundings with a minimum guideline of 3 percent present value savings to be used to determine if the refundings should occur; and
- 2) Authorize Appropriation No. 15315, in the amount of \$652,000 for the costs of issuance arising from the potential sale of refunding bonds; and
- 3) Authorize the reimbursement of expenses paid from the General Fund from bond proceeds, if deemed appropriate, and authorize the General Manager to effect such reimbursement to the extent permitted under federal laws and regulations in accordance with instructions from bond counsel.

EXECUTIVE SUMMARY

In January 1993, your Board adopted Resolutions 8386 and 8387 authorizing the issuance of water revenue and general obligation refunding bonds, and authorizing the Ad Hoc Committee to establish the terms of the bonds and negotiate the sale of the bonds. At that time, your Board established a specific time guideline for the authorizations to remain in effect in order to give the Ad Hoc Committee the flexibility to take advantage of refunding opportunities.

The Ad Hoc Committee has been in existence for over ten years. The Chairman of the Board, the Chairman of the Budget and Finance Committee of the Board, and the General Manager, or his designee, acting jointly, comprise the Ad Hoc Committee. The Ad Hoc Committee is

authorized to establish an underwriting team, set the size of the issue, the terms of the bonds, and to determine the date of the sale. It now appears that market conditions may offer Metropolitan the opportunity to refund certain of Metropolitan's outstanding debt. Therefore, it is recommended that the Ad Hoc Committee's authorization to negotiate refundings of Metropolitan debt be extended to December 31, 1998.

Currently guidelines established by your Board for bond refundings are at least a three percent present value savings for current refundings and at least a five percent present value savings for advance refundings (as detailed in the Long Range Finance Plan). Because long-term rates have approached levels not seen since the 1970's, staff proposes to revise these guidelines to reflect prior guidelines of the Board. The prior Board guidelines were established to achieve at least a 3 percent present value savings for current refundings and for advance refundings a target guideline of 5 percent present value savings with a minimum guideline of 3 percent present value savings to be used to determine if the sale or sales should occur.

An appropriation is required against which to charge costs of issuance incurred and to be incurred in connection with the potential bond sale or sales. It is recommended that the Board of Directors authorize Appropriation No. 15315, in the amount of \$652,000, from the General Fund, to pay the costs of issuance arising from the potential sale. The projected costs of issuance were derived from past experience and the best estimates of staff and the District's financial advisor. In order to maintain financing flexibility, your Board is being asked to authorize reimbursement of the costs of issuance to be paid from the General Fund, or from bond proceeds, if deemed appropriate.

The lead senior underwriter will be Bear, Stearns & Co. Inc. The remainder of the underwriting team will be determined by the Ad Hoc Committee.

DETAILED REPORT

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 established a specific time guideline for the authorizations to remain in effect in order to give the Ad Hoc Committee the flexibility to take advantage of refunding opportunities. The Chairman of the Board, the Chairman of the Budget and Finance Committee of the Board, and the General Manager, or his designee, acting jointly, comprise the Ad Hoc Committee. The Ad Hoc Committee has been in existence for over ten years and in the past has been authorized to establish an underwriting team, set the size of the issue, the terms of the bonds, and to determine the date of the sale. It now appears that market conditions may offer Metropolitan the opportunity to refund certain of Metropolitan's outstanding debt. Therefore, it is recommended that the Ad Hoc Committee's authorization to negotiate refundings of Metropolitan debt be extended to December 31, 1998.

Staff is making the necessary preparations to refund certain outstanding revenue bonds and general obligation bonds of the District should interest rates continue to decline in the tax-exempt municipal bond market. An appropriation is required against which to charge the costs of issuance incurred and to be incurred in connection with the proposed negotiated sale or sales.

Refundings of outstanding debt are subject to the Board's current guidelines of at least a three percent present value savings for current refundings and at least a five percent present value savings for advance refundings as discussed in Metropolitan's Long Range Finance Plan. Using these guidelines, Metropolitan has been able to take advantage of refunding opportunities and has reduced its overall cost of funds to approximately 5.35 percent. Interest rates in the municipal market have recently reached levels that have not been seen since the 1970's. Under the current guideline for advance refunding, there are no bonds that presently meet the five percent present value savings criteria since Metropolitan has been very successful in issuing debt at relatively low levels in past interest rate cycles. Most of Metropolitan's outstanding debt coupons fall below six percent. However, by allowing the Ad Hoc Committee the flexibility to revise the advance refunding guidelines to a target guideline of 5 percent present value savings with a minimum guideline of 3 percent present value savings to be used to determine if the sale or sales should occur, Metropolitan may be able to refund approximately \$185 million of outstanding debt, consisting of \$150 million revenue bonds and \$35 million general obligation bonds, that would otherwise not be available. The gross savings on these advance refundings are estimated to be approximately \$8 million to \$10 million, and present value savings on these advance refundings are estimated to be approximately \$5 million to \$7 million.

Estimates for the costs of issuance for the sale or sales are derived from past experience and the best estimates of staff and the District's financial advisor. It is estimated that an appropriation in the amount of \$652,000 will be required. The following table shows the breakdown of estimated expenses, assuming revenue bonds and general obligation bonds would be issued.

Bond Counsel	\$135,000
Co-Bond Counsel	\$ 55,000
Disclosure Counsel	\$ 85,000
Bond Rating Agencies	\$130,000
Typesetting, Printing, Mailing	\$130,000
Auditing Services	\$ 15,000
Market Development/Miscellaneous	\$ 5,000
Contingency	\$ 20,000
Surety Bond	<u>\$ 77,000</u>
Total	\$652,000

The appropriation for this purpose will be designated Appropriation No. 15315 "Extension of Authority to Issue Refunding Bonds Under Board Resolutions 8386 and 8387, and to Pay the Costs of Issuance". In order to maintain financing flexibility, your Board is being asked to authorize the reimbursement of expenses paid from the General Fund from bond proceeds, if deemed appropriate, and authorize the General Manager to effect such reimbursement to the extent permitted under federal laws and regulations in accordance with instructions from bond

counsel. The lead senior underwriter will be Bear, Stearns & Co. Inc. The remainder of the underwriting team will be determined by the Ad Hoc Committee.

Action in connection with the costs of issuance associated with the sale or sales is exempt from the provisions of the California Environmental Quality Act because it constitutes a government fiscal activity which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

KRN/jg

P:\FINSERV\WINWORD\98-MRKEX.DOC