



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-9

January 20, 1998

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

From: ~~F.R.~~ General Manager

Submitted by: Lambertus H. Becker
Chief Financial Officer

Subject: Authority to Sell up to \$50 Million of General Obligation Bonds Through Negotiated Sale

RECOMMENDATION

That the Board of Directors, by a vote of two-thirds of the total vote of the Board, adopt a resolution in the form attached to authorize the negotiated sale of \$50 million of general obligation bonds.

REPORT

In January 1998 the Board authorized the refunding of certain general obligation (G.O.) bonds through a negotiated sale. It has been determined that inclusion of new-money G.O. bonds in the refunding will increase the present value savings of the transaction by about \$187,000. The new-money portion will extend the term of the aggregate bond issue and result in increased interest earnings on the refunding escrow accounts allowing the principal amount needed for the refunding bonds to be reduced.

On September 21, 1993, through the adoption of Resolution 8420, the Board authorized the issuance of the remaining \$50 million of the \$850 million in Metropolitan G.O. bonds authorized by the California voters in 1966. However, this resolution authorizes only a competitive sale. Metropolitan is now in a position to include issuance of the \$50 million in G.O. bonds as part of the proposed refunding of outstanding G.O. bonds in order to produce greater present value savings from the refunding. Another advantage of combining issuance of the remaining \$50 million of G.O. bonds with the proposed refunding issue is a savings in issuance costs. There will be virtually no issuance costs for the new-money bonds by combining the new-money G.O. bond sale with the sale of the refunding G.O. bonds.

As part of an overall capital financing strategy, Metropolitan has been holding the remaining \$50 million in G.O. bonds in reserve to be used for emergency repairs in the event of system outages. There was also a question as to the total amount of remaining G.O. bond authorization because of refunding issues that occurred in the early 1990's with principal amounts greater than the G.O. bonds being refunded. Through a validation suit, the court ruled on June 9, 1994, that Metropolitan has authority to issue the full \$50 million remaining of the voter-approved G.O. bonds.

After discussions with our financial advisor and representatives of the banking community, staff has determined that Metropolitan's commercial paper program provides as good, if not better, financial protection as G.O. bonds in case of emergencies. Metropolitan currently has \$100 million of authorized but unissued commercial paper capacity. The commercial paper is highly liquid and can be issued in two days if needed, compared to the two or three months required for a competitive sale of the G.O. bonds. Therefore, the \$50 million of G.O. bonds can be used now to provide additional funding for the Capital Improvement Program. Current low interest rates in the municipal tax-exempt markets make it advantageous to issue the remaining G.O. bond authorization now to lock in low rates for the long term.

It should be noted that issuance of the remaining \$50 million in G.O. bonds will increase Metropolitan's authority to levy property taxes under the tax limitation contained in Section 124.5 of the MWD Act. Section 124.5 of the Act limits taxes to the amount needed to pay Metropolitan's G.O. bond debt service and Metropolitan's share of the State Water Project's G.O. bond debt service. The increase in taxing authority for the \$50 million in additional G.O. bonds would be about \$3.5 million per year if the Board were to raise the tax rate to its upper limit. However, the Board has held the tax rate at .0089 percent of assessed value (which is below the current maximum level) since 1991-92.

The current tax rate produces approximately \$85 million per year, which is sufficient to pay all of Metropolitan's G.O. bond debt service and about 75 percent of Metropolitan's share of the State Water Project's G.O. bond debt service. The Board could raise the tax levy to about \$110.0 million per year if the levy was increased to the statutory limit. This would increase the tax rate to .0115 percent of assessed value. The portion of the increase associated with the \$3.5 million of new G.O. bond debt service would amount to .0004 percent of assessed value, or about \$0.75 per year for a typical \$200,000 home. If the Board continues to hold Metropolitan's tax rate to .0089 percent of assessed value an additional \$3.5 million of Metropolitan's share of the State Water Project's G.O. bond debt service would be paid from water revenues. The decision to set the tax rate is made by the Board in August of each year.

In order to include issuance of the new-money G.O. bonds in the proposed refunding, the Board must, by two-thirds vote of the total vote of the Board, authorize the negotiated sale of the remaining \$50 million in G.O. bonds. A form of resolution to authorize the negotiated sale is included as Attachment A.

The action recommended in this letter is exempt from the provisions of the California Environmental Quality Act because it constitutes 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.

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**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

RESOLUTION _____

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
AMENDING CERTAIN PROVISIONS OF RESOLUTION 8420
RELATING TO THE ISSUANCE OF UP TO \$50,000,000
WATERWORKS BONDS, ELECTION 1966, SERIES H
(FIRST SUPPLEMENTAL RESOLUTION)**

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RESOLUTION _____

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
AMENDING CERTAIN PROVISIONS OF RESOLUTION 8420
RELATING TO THE ISSUANCE OF UP TO \$50,000,000
WATERWORKS BONDS, ELECTION 1966, SERIES H
(FIRST SUPPLEMENTAL RESOLUTION)

WHEREAS, pursuant to the Metropolitan Water District Act, California Stats. 1927, Ch. 429, as such act was in effect on June 7, 1966 (the "1927 Act"), and Ordinance No. 105 ("Ordinance No. 105") of The Metropolitan Water District of Southern California (the "District"), a special election was duly and regularly held in the District on the 7th day of June, 1966, at which election there was submitted to the qualified voters of the District the following bond proposition ("Proposition W"):

METROPOLITAN WATER DISTRICT BOND PROPOSITION:

Shall The Metropolitan Water District of Southern California incur a bonded indebtedness in the principal sum of \$850,000,000 for the purpose of acquisition and construction by said District of public improvements and works of the District for supplying the inhabitants of such District with water, including facilities for the acquisition and production of water, facilities for the treatment, storage, transportation and distribution of such water and of water to be received from the State Water Project and from any other source, and the acquisition of lands, rights of way, machinery, equipment and other property and works necessary or convenient therefor, and the payment of funds to the State of California (pursuant to the District's contract with the State for a water supply) to acquire additional capacity in the project transportation facilities of the State Water Project?

; and

WHEREAS, Proposition W received the affirmative vote and assent of more than a majority of all of the qualified electors of the District voting on such proposition; and

WHEREAS, it was provided by Resolution 6954 of the Board of Directors of the District that the bonds of the District so authorized at the special election should be issued from time to time as money is needed for the objects and purposes set forth in Proposition W, and that

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the bonds should be designated The Metropolitan Water District of Southern California, Waterworks Bonds, Election 1966; and

WHEREAS, of the \$850,000,000 principal amount of Waterworks Bonds, Election 1966 authorized at the special election, the District has issued the following series and amounts:

<u>Reso- lution</u>	<u>Adoption Date</u>	<u>Series</u>	<u>Amount</u>
6954	May 9, 1967	A	\$100,000,000
7068	May 14, 1968	B	85,000,000
7254	April 27, 1970	C	100,000,000
7303	December 8, 1970	D	100,000,000
7391	February 8, 1972	E	100,000,000
8052	March 12, 1985	F	100,000,000
8230	June 15, 1989	G	215,000,000

; and

WHEREAS, the Board on September 21, 1993 duly adopted Resolution 8420 (the "1993 Resolution") providing for the issuance of up to \$50,000,000 in aggregate principal amount of Waterworks Bonds, Election 1966, Series H (the "Series H Bonds") for the purposes set forth in Proposition W, which bonds have not yet been sold, issued or delivered; and

WHEREAS, the Superior Court of the State of California, in The Metropolitan Water District of Southern California v. All Persons Interested In the Matter (Case No. BC 093597)(1993), held that the 1993 Resolution is, and, when issued in any amount not to exceed \$50,000,000 in accordance with the 1993 Resolution, the Series H Bonds will be, valid, legal and binding obligations in accordance with their terms and will be in conformity with all applicable provisions of law, and that, in accordance with Article XIII A, Section 1 of the California Constitution, ad valorem taxes, if any, with respect to the Series H Bonds may be levied without the further approval of the qualified electors of the District; and

WHEREAS, the District desires to amend the 1993 Resolution in certain respects prior to the sale and issuance of the Series H Bonds; and

WHEREAS, pursuant to Section 6.01 of the 1993 Resolution, the 1993 Resolution may be amended by a supplemental resolution adopted by the Board prior to the time that the Series H Bonds are issued;

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NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors of The Metropolitan Water District of Southern California, as follows:

ARTICLE I

DETERMINATION; DEFINITIONS

Section 1.01. First Supplemental Resolution; Determination. This First Supplemental Resolution (this "First Supplemental Resolution") is adopted in accordance with the provisions of the 1993 Resolution.

Section 1.02. Definitions. All terms which are defined in Section 1.01 of the 1993 Resolution shall, unless otherwise defined herein, have the same meanings, respectively, in this First Supplemental Resolution.

ARTICLE II

AMENDMENT OF 1993 RESOLUTION

Section 2.01. Amendment of 1993 Resolution Pursuant to Section 6.01 thereof.

Pursuant to Section 6.01 of the 1993 Resolution, the provisions of the 1993 Resolution are hereby amended and supplemented as follows:

(a) Amendment to Section 1.01. Section 1.01 of the 1993 Resolution is hereby amended by deleting the definitions of "Authorized Representative", "Sales Documents" and "Underwriters" in their entirety and replacing the foregoing definitions as follows:

"Authorized Representative" means each of the General Manager of the District and the Chief Financial Officer of the District and any other officer or employee of the District authorized by the General Manager or the Chief Financial Officer to act as an Authorized Representative."

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"Sales Documents' means, in the case of a negotiated sale, that certain bond purchase contract or other agreement for the purchase of the Series H Bonds to be entered into between the District and the Underwriters of the Series H Bonds; or, in the case of a competitive sale, the notice of sale, bid form and other documents providing for the sale of the Series H Bonds by the District to the Underwriters."

"Underwriters' means, in the case of a negotiated sale, the original purchaser or purchasers of the Series H Bonds, as selected by the General Manager or his or her designee; or, in the case of a competitive sale, the successful bidder for the Series H Bonds."

(b) Amendment to Section 7.01. Section 7.01 of the 1993 Resolution is hereby amended to read in its entirety as follows:

"Section 7.01. Approval of Sales Documents. The Chairman of the Board, or in the event of a vacancy, the Acting Chairman of the Board, the Chairman of the Budget and Finance Committee of the Board, or in the event of a vacancy, the Acting Chairman of the Budget and Finance Committee of the Board, and the General Manager, or his designee, acting jointly, are hereby constituted an ad hoc committee (the "Ad Hoc Committee"). The Ad Hoc Committee is authorized and directed to determine on behalf of the District the aggregate principal amount, terms and conditions of the Series H Bonds and the terms and conditions of the sale of the Series H Bonds at either a private sale to one or more purchasers or a competitive sale; provided, however, that any such negotiated sale shall be made in combination with the sale of the District's general obligation refunding bonds authorized under Resolution 8386. The Ad Hoc Committee is hereby empowered to establish on behalf of the District such aggregate principal amount, terms and conditions of the Series H Bonds, and of the sale of the Series H Bonds to the Underwriters, as the members of the Ad Hoc Committee shall agree upon in their sole discretion as being in the best interests of the District, subject only to the provisions of the Act and of the Resolution, and shall be so empowered solely to implement the fundamental policies established by this Resolution in a manner that is most advantageous to the District, and to deem the official statement relating to the Series H Bonds final within the meaning of 15c2-12 of the Securities Exchange Act of 1934, as amended. Such aggregate principal amount, terms and conditions of the Series H Bonds and their sale shall be set forth in the Sales Documents. Such terms and conditions as so set forth, together with the other terms and conditions of the Series H Bonds set forth in this Resolution, shall, upon execution and delivery of the Sales Documents by the Ad Hoc Committee, or its designee, on behalf of the District, be all the terms and this conditions of the Series H Bonds, as if all such terms and conditions were fully set forth in Resolution.

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The provisions of the Sales Documents pertaining to the terms of the Series H Bonds are hereby incorporated by reference into this Resolution with the same force and effect as if set forth herein.

If the Series H Bonds are sold in combination with the District's general obligation refunding bonds authorized under Resolution 8386, the Board hereby finds and determines that the interests of the District and the public interest and necessity require that the provisions of Section 225 and of Section 226 of the Act be waived.

The Series H Bonds may sold pursuant to the Sales Documents at a discount not to exceed one percent (1%) (excluding original issue discount, if any). In addition, in no event may the true interest cost for the Series H Bonds exceed six percent (6%)."

(c) Amendment to Section 7.03. Section 7.03 of the 1993 Resolution is hereby amended to read in its entirety as follows:

"Section 7.03. General Authorization. The Chairman of the Board, or in the event of a vacancy, the Acting Chairman of the Board, the Chairman of the Budget and Finance Committee of the Board, the Secretary of the Board, the General Manager, the General Counsel, the Treasurer and the Controller or Assistant Controller, are hereby respectively authorized to do and perform, or cause to be done and performed, from time to time any and all acts and things consistent with this Resolution necessary or appropriate to carry the same into effect."

(d) Addition of Article VIII. The 1993 Resolution is hereby amended by the addition of Article VIII immediately succeeding Article VII as follows:

"ARTICLE VIII

UNDERTAKINGS

SECTION 8.01. Municipal Securities Disclosure. The District hereby agrees to provide or cause to be provided certain annual financial information and notices of certain material events with respect to the Series H Bonds in accordance with the terms of the Continuing Disclosure Certificate delivered by the District in connection with the Series H Bonds.

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SECTION 8.02. Default. A default under this Article VIII shall not be deemed an Event of Default under the Resolution. The sole remedy under this Article VIII in the event of any failure of the District to comply with this Article VIII shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances.

SECTION 8.03. Amendment. This Article VIII may be amended, supplemented, modified or deleted, from time to time and at any time, as the District may determine without the consent of any Owner of the Series H Bonds."

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ARTICLE III

MISCELLANEOUS

SECTION 3.01. 1993 Resolution. The 1993 Resolution, as amended and supplemented by this First Supplemental Resolution, is in all respects ratified and approved.

SECTION 3.02. Severability of Invalid Provisions. If any one or more of the provisions contained in this First Supplemental Resolution or in the Series H Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this First Supplemental Resolution and such invalidity, illegality or unenforceability shall not affect any other provision of this First Supplemental Resolution, and this First Supplemental Resolution shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The District hereby declares that it would have adopted this First Supplemental Resolution and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any of this First Supplemental Resolution may be held illegal, invalid or unenforceable.

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SECTION 3.03. Article and Section Headings and References; Interpretation.

The headings or titles of the several Articles and Sections hereof shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this First Supplemental Resolution.

All references herein to "Article," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this First Supplemental Resolution; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this First Supplemental Resolution as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

SECTION 3.04. Governing Law. This First Supplemental Resolution shall be construed and governed in accordance with the laws of the State of California.

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of a Resolution adopted by a two-thirds (2/3rds) vote of the total vote of the Board of Directors of The Metropolitan Water District of Southern California at its regular meeting held February 10, 1998.

Executive Secretary
The Metropolitan Water
District of Southern
California