MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

September 1, 1998

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

From: for General Manager

Submitted by: Lambertus H. Becker
Chief Financial Officer

Subject: Report on Sale of Waterworks General Obligation Bonds, Series H, Waterworks General Obligation Refunding Bonds, 1998 Series A, and Water Revenue Refunding Bonds, 1998 Series A

RECOMMENDATION

For information only.

DETAILED REPORT

On August 31, 1998, pursuant to your Board's authorization, Metropolitan sold $62.1 million of Waterworks General Obligation (G.O.) Refunding Bonds, 1998 Series A, and $50 million of Waterworks General Obligation Bonds, Series H, (new money) at a combined true interest cost of 4.86 percent; and $148.7 million of Water Revenue Refunding Bonds, 1998 Series A, at a true interest cost of 4.99 percent. The negotiated sale accomplished the current refunding of the outstanding Waterworks General Obligation Bonds, Series E, and the partial advance refunding of the Waterworks General Obligation Bonds, Series G; and the partial advance refunding of the Water Revenue Bonds, Issues of 1992 and 1995A. The G.O. bond refunding will generate total debt service savings of $5.5 million and net present value savings of $3.7 million. The revenue bond refunding will generate total debt service savings of $12.7 million and net present value savings of $7.4 million.

On a percentage basis, the G.O. advance refunding produced net present value savings of 7.89 percent of net refunding bonds, exceeding the Board's goal of 5 percent for advance refundings, and the G.O. current refunding produced net present value savings of 3.78 percent of net refunding bonds, exceeding the Board's goal of 3 percent for current refundings. The water revenue advance refunding bonds produced net present value savings of 4.97 percent of net refunding bonds, slightly below the Board's goal of 5 percent for advance refundings. The Ad Hoc Committee created by the Board to sell the bonds approved this slight variation from the advance refunding goal in order to take advantage of favorable market conditions for the overall sale.

This sale marks the culmination of nearly one year of cooperative effort among staff, our financial advisor, co-bond counsel, and disclosure counsel. The financial advisor on the deal was O'Brien Partners, Inc., and co-bond counsel was O'Melveny & Myers LLP and Curls, Brown & Duran LLP. Disclosure counsel was Hawkins, Delafield & Wood. The water revenue refunding bonds were rated double-A and the general obligation refunding and new money bonds were rated triple-A by both Moody's Investors Service, Inc. and Standard and Poor's Ratings Group.

The senior manager for the sale was Bear, Stearns & Co., Inc., with PaineWebber Incorporated; Samuel A. Ramirez & Co., Inc.; and Salomon Smith Barney serving as co-senior managers. The co-managers for the sale were Artemis Capital Group, Inc.; M. R. Beal & Company; E. J. De La Rosa & Co., Inc.; J. P. Morgan Securities Inc.; Lehman Brothers; Merrill Lynch & Co.; Morgan Stanley Dean Witter; Prager, McCarthy & Sealy; and Prudential Securities Incorporated.

The timing of the negotiated bond sale was very favorable. The favorable conditions were attributed to instability in the domestic and overseas financial markets which caused money to flow into the U.S. bond market from all over the world. As a result, 30-year Treasury bond yields fell to 5.25 percent the day of the sale – the lowest since the Treasury began regular sales of the bonds in 1977. Attached are excerpts from two Bloomberg market reports describing these favorable conditions in detail. Also attached are two articles from the Bond Buyer reporting on Metropolitan's sale.

Metropolitan was able to take advantage of the favorable municipal bond market conditions because of advance planning and preparation which put us in position for quick entry into the market.

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bondsale.doc

Attachments

BN 08/31 Munis Rise Less Than Treasuries as Metro Waters Taps Market

Munis Rise Less Than Treasuries as Metro Waters Taps Market

New York, Aug. 31 (Bloomberg) -- The municipal bond market rose less than Treasuries as Southern California's Metropolitan Water Authority sold about $263 million in bonds, kicking off $3.3 billion in new issues later this week.

The sale was warmly received by buyers as the U.S. stock market reeled, sending the Dow Jones Industrial Average more than 500 points, or 6.2 percent.

Nimble states, cities and public agencies are jumping at the chance to sell bonds while demand for fixed-income investments is strong and borrowing rates are at record lows.

``This is a very, very good market to be selling into,'' said J. Ben Watkins, director of bond sales for Florida. ``With the trouble in the stock market there may be an increase in demand.''

Florida today released plans for a $200 million sale of bonds backed by the state lottery in a competitive auction at 11 a.m. Eastern time tomorrow. The bonds were initially set to sell later in September. It also released plans for a $230 million refunding on Sept. 9 that the drop in interest rates made possible.

Insured 10-year munis, as measured by The Bond Market Association/Bloomberg, rose enough to lower yields 1 basis point to 4.41 percent, the lowest since Feb. 17. The Bond Buyer 40 Index yield fell 2 basis points to 5.19 percent.

Among frequently traded munis on the secondary market, yields on Philadelphia's 5 1/8 percent bonds maturing in 2028 rose, pushing the yield 1 basis point lower to 5.19 percent, according to bond broker J.J. Kenny Drake Inc. The bonds have a taxable equivalent yield of 8.11 percent for investors in the 36 percent federal tax bracket.

Benchmark 30-year Treasury bond yields, meanwhile, fell as much as 9 basis points to 5.25 percent -- the lowest since the Treasury began regular sales of the bonds in 1977.

The bulk of the Met Waters sale was $148.8 in revenue bonds, given yields ranging from 3.40 percent in 1999 to 5.02 percent in 2022, in a repricing that trimmed as much as 5 basis points in yield.

The sale was on the shelf since November of last year, said Burt Becker, finance director of the water district.

Retail Demand

With few new sales in the muni market today, many were eyeing the slide in the stock market.

``It's going to test the conviction of a lot of our new equity investors,'' said Robert Pariseau, who runs about $1 billion in munis for U.S.A.A. Investment Management in San

BN 08/31 U.S. Bonds Rally, Driving 30-Year Yield to Record Low (Update2)

U.S. Bonds Rally, Driving 30-Year Yield to Record Low (Update2)

(Updates prices.)

New York, Aug. 31 (Bloomberg) -- U.S. bonds staged a late-day rally, rounding out the best month for bonds since May 1995, as a plunge in stocks raised the allure of U.S. government debt.

``Money is moving into the bond market from all over the world,'' said William Dawson, who oversees about $76 billion in bonds at Federated Investors in Pittsburgh and could fall below 5 percent as the risk of a recession grows.

The 30-year Treasury bond rose 1 2/32, or $10.64 per $1,000 bond, to 103 1/2 and pushing the yield down 7 basis points to 5.27 percent. Yields fell as low as 5.25 percent, the lowest since the U.S. started regular sales of the securities in 1977.

Investors snapped up Treasuries in recent weeks as a refuge from turbulent financial markets after Russia devalued its currency and forced investors to take big losses on 281 billion rubles of short-term government debt.

Today, the Dow Jones Industrial Average fell 512.61 points, or 6.37 percent, 7539.07. The Nasdaq Composite Index fell 140.45, or 8.6 percent, to 1499.23, its worst drop since the crash of October 1987.

``Everyone just wants Treasuries, you're seeing that in all markets,'' said Bob Laskowski, who manages about $220 million in bonds for the China Trust Bank and expects yields on government bonds to decline further.

The 30-year U.S. Treasury bond handed investors gains of of 7.3 percent in August, when price gains and reinvested coupon payments are taken into account. It posted gains of 9.3 percent in May 1995.

Year-to-date, the bellwether bond returned 13.9 percent. By comparison, the Dow Jones Industrial Average erased all of 1998's gains with today's decline, and is down 4.67 percent on the year. The stock index's gains peaked at 18 percent in mid-July.

Fed Watch

Treasuries of all maturities are yielding less than the Federal Reserve's 5.5 percent target rate for overnight loans between banks, or federal funds rate. That suggests that many investors see a chance the central bank will lower interest rates to try to stabilize global markets and head off an economic slowdown in the U.S.

The Fed last changed rates in March 1997, raising the fed funds target by a quarter point. The Fed's policy-setting committee next meets on Sept. 29.

Growing expectations for a cut in interest rates can be seen in futures on Eurodollars, or dollars on deposit outside the

THE BOND BUYER

Monday, August 31, 1998

SoCal Water District Has Deal Ready

By Andrea Figler

LOS ANGELES — The **Metropolitan Water District of Southern California** plans to price a $313 million negotiated bond issue with both new-money and refunding portions today if the long bond's yield stays in the low fives, the district's director of finance said last week.

The offerings have been idling for months while the district waited for the best market conditions.

But as soon as the benchmark long bond dropped to record lows Thursday, finance director **Bert Becker** decided the minimum 0.5% net present-value savings the agency is seeking was within reach, and gave the green light.

The bonds scheduled for refunding carry coupons in the high fives, Becker said.

Senior manager **Bear, Stearns & Co.** expects to price $101.2 million in general obligation refunding and $162.5 million in revenue refunding bonds today. The firm will also price $50 million in new-money GOs — the last leg of an $850 million GO authorization approved in a 1966 election.

A preliminary structure for the deal calls for the $162.5 million revenue refunding bonds to carry serial maturities from 1999 to 2018 and a term maturity in 2022. The $101.2 million in GO refunding bonds also have serial maturities from 1999 to 2018 and include a term bond in 2020.

The $50 million new-money GO bonds carry preliminary serial maturities from 1999 to 2018 and three term bonds — 2020, 2028, and 2037.

The district's levied ad valorem taxes back the GO securities.

Moody's Investors Service cited the district's fundamental credit strength in rating the GO bonds and GO refunding bonds Aaa.

Standard & Poor's also rated the GO offerings AAA, noting that revenue debt, rather than GO bonds, fund a significant portion of the district's $3.9 billion capital improvement program.

A portion of proceeds from the $50 million GO will help fund construction of the Eastside Reservoir, which will be five miles long and two miles wide.

Standard & Poor's rates the district's revenue refunding bonds AA because maintaining the district's water supply policy could cost between $4 billion and $8 billion. Moody's rated the refunding bonds Aa2.

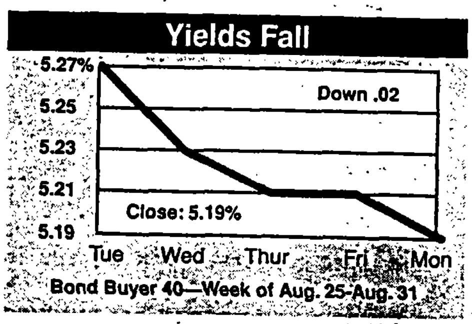
The district's net operating revenues secure the revenue refundings.

NEWS

THE BOND BUYER

Tuesday, September 1, 1998

MONDAY'S MARKET



Munis Gain a Bit On Equity Chaos

By Julie Rannazzisi,
The Bond Buyer Wire

Carnage in the stock market sent the long bond through the crucial 5¼% yield, as the Dow Jones industrial average fell a staggering 512.61 points to close at 7,539.07 — the second-largest point loss in its history, traders said.

The 10-year Treasury note, meanwhile, fell below 5% — which means all government securities with the exception of the 30-year bond are trading below that key level.

As is typical in instances of fast-moving, panic-driven markets, secondary municipal bond prices froze and were able to pile on only meager ¼-point gains. Players said, however, that they are expecting sharp markups in bonds when trading kicks off this morning.

Meanwhile, a stream of refunding deals may pour into today's market. That rush could include a $104 million **Wisconsin** clean-water bond deal. Elsewhere, **Florida** announced that it would

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California Water District Prices Deal As Florida Prepares Its Lottery Bonds

Continued from front page

be bringing to market a $200 million lottery revenue bond deal for the Board of Education this morning. In addition, the **Clark County, Nev., School District** will competitively sell $182.3 million of general obligation refunding bonds at 1 p.m. Eastern Standard Time.

Topping negotiated action will be a $160 million revenue refunding bond deal for the **State Environmental Improvement and Energy Resources Authority of the State of Missouri** through **A.G. Edwards** & Sons. The bonds will benefit the **Union Electric** Co. project.

Yesterday saw the pricing of a $262.4 million two-part refunding bond deal for the **Southern California Metropolitan Water District**. Yields were lowered between two and 10 basis points in most maturities at the repricing. The yield on one maturity was raised by two basis points.

The deal features a $148.8 million water revenue refunding piece priced to yield from 3.35% in 1999 to 5% in 2018. A 2022 term was priced as 4¾s to yield 5.02%. The bonds are rated Aa2 by **Moody's Investors Service** and AA by **Standard & Poor's**.

A $113.6 million water works general obligation refunding tranche was priced to yield from 3.30% in 1999 to 4.95% in 2018. A 2028 term was priced as 4¾s to yield 5%. A 2037 term was priced as 4¾s to yield 5.03%. The bonds are rated triple-A by Moody's and Standard & Poor's.

Secondary traders defined yesterday's action as extremely choppy. **Merrill Lynch** & Co. freed to trade $500 million general obligation bonds from **Massachusetts**, priced last Thursday in negotiated action. One dealer defined the move as a nonevent, as there were few bonds left on the Street. Among the trades that took place was a block of the 5¼s of 2008, which had a bid-ask spread of 4.38%-4.35% market. In addition, a portion of the 5¼s of 2012 changed hands at 4.75%, traders said.

Salomon Smith Barney Inc. freed to trade $282 million of **Cook County**, Ill., general obligation refunding bonds, which were priced last Thursday in negotiated action. Among yesterday's earlier trades, one New York trader said a block of **New York State Dormitory Authority** mental health 5s of 2023 traded at a 5.10% yield. Those bonds were on a bid list last Thursday and fetched a yield of 5.12%, the trader said. Traders said they now expect money to pour into fixed-income markets as investors become more conservative with their investments.

"And if you decide to get put more into fixed-income, you'd be crazy to not go into munis," he remarked. For example, long-dated, insured **New York** paper currently carries yields between 95% and 96% of the yields available on comparable-maturity Treasuries.

Turning to the government market, the huge bid due to the crumbling stock market as well as month-end buying helped bolster the U.S. Treasury market, traders said.

Tony Crescenzi, chief fixed-income strategist at **Miller, Tabak, Hirsch** & Co., said the buying relates to the large upward adjustment of 0.21 years in the average duration of the closely watched Lehman Treasury index. Crescenzi noted that fairly large adjustments to the index are not unusual during refunding months, when 30-year bonds are included. Still the magnitude of this month's change is due mostly to the replacement of three-year notes by five-year notes in the refunding, he added.

In Russia, meanwhile, the Communist-dominated Duma rejected acting Prime Minister **Viktor Chernomyrdin** as prime minister in its first vote, as expected. President **Boris Yeltsin** has already decided to renominate Chernomyrdin. ❑