October 27, 1998

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

From: General Manager

Submitted by: Lambertus H. Becker
Chief Financial Officer

Subject: Extension of Authority to Issue Refunding Bonds Under Board Resolutions 8386 and 8387

RECOMMENDATION

It is recommended that the Board of Directors, 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, 1999, with the guidelines of achieving at least a 3 percent present value savings for current refundings and a target of a 5 percent present value savings for advance refundings.

EXECUTIVE SUMMARY

In January 1993, the 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, the 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 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 additional opportunities to refund outstanding debt. In order to be able to react quickly to changing market conditions, it is recommended that the Ad Hoc Committee's authorization to negotiate refundings of Metropolitan debt be extended to December 31, 1999. The Board has consistently delegated this authority to the Ad Hoc Committee since 1993.

Current guidelines established by the Board for bond refundings are at least a 3 percent present value savings for current refundings and at least a 5 percent present value savings for advance refundings.

The lead senior underwriter will continue to be Bear, Stearns & Co. Inc., with PaineWebber Incorporated, Ramirez & Co. Inc. and Salomon Smith Barney serving as co-seniors. The remainder of the underwriting team will continue to serve as co-managers.

DETAILED REPORT

In January 1993, the Board adopted Resolutions 8386 and 8387 authorizing the issuance of water revenue and general obligation refunding bonds. At that time, the 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 additional opportunities to refund outstanding debt. On January 13, 1998, the Board delegated authority to refund bonds to the Ad Hoc Committee through December 31, 1998. It is now recommended that the Ad Hoc Committee's authority for refundings of Metropolitan debt be extended to December 31, 1999.

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. Refundings of outstanding debt are subject to the Board's current guidelines of at least a 3 percent present value savings for current refundings and at least a 5 percent present value savings for advance refundings. Using these guidelines, Metropolitan has been able to take advantage of refunding opportunities and has reduced its overall cost of funds to approximately 5.37 percent.

On September 22, 1998, Metropolitan completed the sale of $210 million in water revenue and general obligation refunding bonds. The revenue bonds were sold at a true interest cost of 4.99 percent and the general obligation bonds were sold at a true interest cost of 4.86 percent. During preparation for the sale additional outstanding bonds were identified as potential refunding candidates. Under favorable conditions that produce present value savings within the targets, Metropolitan would be able to refund up to $355 million of outstanding debt, consisting of $252 million revenue bonds and $103 million general obligation bonds. The gross savings could be in the range of $18 to $25 million. The present value savings on these refundings could be $15 to $20 million.

The lead senior underwriter will continue to be Bear, Stearns & Co. Inc., with PaineWebber Incorporated, Ramirez & Co. Inc. and Salomon Smith Barney serving as co-seniors. The remainder of the underwriting team will continue to serve as co-managers.

Action in connection with the recommendation made in this letter 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.

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