

- **Board of Directors**
Budget and Finance Committee

April 11, 2000 Board Meeting

9-6

Subject

Authorization to Proceed with Proposed Financing Options to Reduce Metropolitan's Debt Service Costs

Description

The Subcommittee on Financial Policies and Reporting was formed to study, advise, and make recommendations to the Budget and Finance Committee regarding financial reporting, financial strategies related to the issuance of debt, and updating the Long Range Finance Plan. To date, three meetings of the subcommittee have been held. At the February 2000 and March 2000 meetings of the subcommittee, there was considerable discussion of capital financing strategies for Metropolitan. Presentations on debt management strategies related to variable rate borrowing, the appropriate level of variable rate debt to fixed rate debt, and opportunities to reduce borrowing costs were provided by Metropolitan's financial advisors, Public Resources Advisory Group (PRAG). In addition, the subcommittee heard presentations on debt management strategies from Metropolitan's three senior underwriters, Bear Stearns & Co., Inc., PaineWebber Incorporated, and Salomon Smith Barney, Inc.

Based on the information presented to the subcommittee and the ensuing discussions, the subcommittee decided that Metropolitan should pursue the following debt management strategies:

- Increase variable rate borrowing of the capital investment program to at least 25 percent of total revenue bonds outstanding;
- In order to take advantage of certain market conditions currently available in the municipal bond market, tender for certain outstanding Metropolitan bonds using proceeds from the issuance of variable rate water revenue bonds and from cash reserves if available;
- Cash defease certain Metropolitan bonds;
- Convert outstanding commercial paper to variable rate water revenue bonds in a daily interest rate mode;
- Convert the Water Revenue Bond 1999 Authorization Series B and C issues from a weekly interest rate mode to a daily interest rate mode;
- Consider floating rate swaps as a means to increase variable rate debt exposure.

Additional analysis related to the above-mentioned debt management strategies will be performed by Metropolitan staff, Metropolitan's financial advisor, and from the three senior underwriters. The additional analysis will focus on determining the optimal amount of variable rate debt outstanding that Metropolitan should have in relation to assets available to hedge Metropolitan against higher debt costs due to rising interest rates. The results of the analysis will be presented to the subcommittee at its regular meeting of April 25, 2000.

However, in order to allow ample time and flexibility for market entry of any potential debt offering, staff proposes to begin preparations for tendering market discount bonds and other low coupon bonds of Metropolitan by issuing variable rate demand bonds. Staff is in the process of determining which bonds offer Metropolitan the best potential tender candidates.

In order to commence a tender program at Metropolitan and to pursue the other debt management strategies identified above, a Supplemental Resolution to Metropolitan's Master Water Revenue Bond Resolution will be required. The supplemental resolution, consistent with past practice, will establish an Ad Hoc Committee of your board with authority to set the size of any debt offering, determine the date of a debt offering, sell bonds to an

underwriting syndicate, and to pursue all other debt management strategies identified within the supplemental resolution. The Ad Hoc Committee will be comprised of the Chairman of the Board, the Chairman of the Budget and Finance Committee, and the General Manager. The supplemental resolution will be sent to your board for consideration and approval at the May 2000 regular meeting of the board.

The actions recommended in this letter are exempt from the provisions of the California Environmental Quality Act because they constitute 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.

Policy

Not applicable.

Board Options/Fiscal Impacts

Option #1

Approve commencement of preparations by staff to pursue the debt management strategies identified by the Subcommittee on Financial Policies and Reporting. Supplemental Resolution to Metropolitan’s Master Water Revenue Bond Resolution to be provided to the board for consideration at its May 2000 meeting.

Fiscal Impact: Costs dependent on debt management strategies pursued, and portion of costs to be borne by entities involved in potential financial transactions other than Metropolitan.


Option #2


Require staff to continue analysis of debt management strategies, and report to the board at a future date.

Fiscal Impact: Metropolitan may not be able to take advantage of market opportunities currently available in the municipal bond market.

Staff Recommendation

Staff recommends approval to commence preparations for a bond tender program to take advantage of market conditions currently present in the municipal bond market, and to begin preparations to pursue the other debt management strategies identified by the Subcommittee on Financial Policies and Reporting.

	4/4/2000
<hr/> Antoinette Christovale Assistant Chief Financial Officer	Date

	4/4/2000
<hr/> Ronald R. Jester General Manager	Date