MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

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

June 12, 2001 Board Meeting

**9-3**

## Subject

Approve extending the authority for the sale of water revenue bonds and to implement a water revenue bond tender program during fiscal year 2001-02, and an update on other debt financing matters of Metropolitan

## Description

In May 2000, the eleventh and twelfth Supplemental Resolutions of the Master Revenue Bond Resolution were approved by Metropolitan's Board of Directors. The approvals authorized Metropolitan to sell up to $1.1 billion of water revenue bonds consisting of $200 million of variable rate water revenue bonds to fund a portion of Capital Investment Plan (CIP) expenditures; up to $360 million of variable rate water revenue bonds to retire up to $350 million of commercial paper notes; and up to $500 million of variable rate water revenue bonds to tender outstanding fixed rate water revenue bonds. Board authorization to complete the above financings expired on May 31, 2001.

In September 2000, Metropolitan sold $355.2 million Water Revenue Bonds, 2000 Authorization, Series B1 to B4 to retire $350 million of commercial paper notes in accordance with the approval of the Board. However, Metropolitan did not issue the $200 million of water revenue bonds authorized to fund a portion of CIP expenditures since ample funds were available. As of April 30, 2001, balances in the bond construction funds totaled $68 million. In addition, approximately $30 million of pay-as-you-go expenditure authorization is available to fund the CIP through June 30, 2001, and staff anticipates receiving $85 million of pay-as-you-go authorization from the Board through the Annual Budget for fiscal year 2001-02. The $500 million bond tender transaction also has not occurred due to market conditions. In order to issue water revenue bonds to fund a portion of CIP expenditures, and to issue up to $500 million of variable rate water revenue bonds to tender outstanding fixed rate water revenue bonds during fiscal year 2001-02, approval by the Board to extend the expiration date of the eleventh and twelfth supplemental resolutions to June 30, 2002, is required.

The following is a description of the Capital Investment Plan financing requirements, financing opportunities available to Metropolitan, and Board approvals required to effect certain financing transactions during fiscal year 2001-02:

<u>Capital Investment Plan Funding Requirements</u>

As detailed in Metropolitan's proposed Annual Budget for fiscal year 2001-02, projected expenditures for the Capital Investment Plan in fiscal year 2001-02 are estimated to be $288 million. As such, construction fund balances (including bond construction funds and pay-as-you-go funding) currently available will not be sufficient to fund the CIP through June 30, 2002. Metropolitan will need to access the capital markets during fiscal year 2001-02 to fund the CIP. Metropolitan expects to issue $200 million of variable rate water revenue bonds to fund a portion of the CIP through June 30, 2002 (the Annual Budget for 2001-02 anticipated a $180 million issuance of water revenue bonds), which will enable Metropolitan to meet its capital obligations.

<u>Bond Tender Program</u>

Should municipal bond interest rates increase from current levels during fiscal year 2001-02, Metropolitan may be able to tender for market discount or other low coupon bonds by issuing variable rate water revenue bonds to purchase the bonds at prices significantly below the par amount of the bonds. In order to take advantage of market conditions that may become available, the authorization to tender for outstanding fixed rate water revenue bonds is required to enable Metropolitan to lower its overall cost of debt. If favorable market conditions occur, Metropolitan could issue up to $500 million of variable rate water revenue bonds to tender outstanding fixed rate water revenue bonds of Metropolitan.

Debt Refundings

Metropolitan regularly evaluates financing opportunities to lower its cost of debt. In particular, falling interest rates in the municipal bond market create such opportunities for Metropolitan through the issuance of refunding bonds. The decision to refund Metropolitan debt is based on refunding guidelines established by the Board. Current refunding guidelines are as follows:

- Current refundings: 3 percent present value savings;
- Advance refundings: 5 percent present value savings; and
- Synthetic refundings: 7 percent present value savings.

The authority to refund outstanding bonds of Metropolitan was authorized by the Board in 1993. The ability to effect a sale of refunding bonds including the terms and conditions associated with such sale are delegated by the Board to the Ad Hoc Committee. Therefore, the ability for Metropolitan to refund outstanding bonds during fiscal year 2001-02 is already in effect and no further approval is required by the Board.

Interest Rate Swaps

Metropolitan is currently preparing to advance refund certain outstanding debt of Metropolitan through an interest rate swap transaction. However, current market conditions do not provide Metropolitan with the opportunity to effect the swap transaction. Should market conditions improve, Metropolitan will proceed with the Board approved swap transaction and report to the Board the results of such financing.

Should Metropolitan desire to enter into another swap transaction during fiscal year 2001-02, Board approval will be required. In lieu of seeking Board approval at this time to enter into other swap transactions during fiscal year 2001-02, it is staff's intent to present swap transaction opportunities to the Board throughout fiscal year 2001-02, and seek Board approval for such transactions at the appropriate time.

Commercial Paper Note Authorization

Metropolitan initiated a commercial paper program in 1991, whereby $400 million in Commercial Paper Notes were authorized. Currently, there are no outstanding Commercial Paper Notes. Metropolitan's authority to issue up to $400 million in Commercial Paper Notes is in full force and effect. Although there are no immediate plans to issue commercial paper during fiscal year 2001-02, Metropolitan may use this authorization to supplement the financing requirements of the CIP or provide Metropolitan with a financing alternative to take advantage of more favorable municipal market conditions.

## Policy

An extension of an expiration date is required to authorize the sale of water revenue bonds.

## CEQA

Option #1

The proposed action is not defined as a project under the California Environmental Quality Act (CEQA), because the proposed action involves government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination for Option #1: Determine that the proposed action is not subject to CEQA per Section 15378(b)(4) of the State CEQA Guidelines.

## Board Options/Fiscal Impacts

**Option #1**

Adopt the CEQA determination and approve extension of the authority granted under the eleventh and twelfth Supplemental Resolutions to June 30, 2002, respectively, to execute the sale of $200 million of variable rate water revenue bonds to fund a portion of CIP expenditures, and to approve up to $500 million of variable rate water revenue bonds to tender outstanding fixed rate water revenue bonds.

**Fiscal Impact:** Authorization will permit Metropolitan to provide funding for CIP expenditures and to take advantage of market conditions to reduce debt service costs during fiscal year 2001-02.

**Option #2**

Require staff to continue to review and analyze debt management strategies and seek authorization for such financings when required in the future.

**Fiscal Impact:** Metropolitan may not be able to take advantage of market conditions to reduce debt service costs.

## Staff Recommendation

Option #1

Brian G. Thomas 5/21/2001

*Brian G. Thomas* *Date*
*Chief Financial Officer*

Ronald R. Gastelum 5/22/2001

*President & Chief Executive Officer* *Date*

BLA #1098