

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

August 20, 2002 Board Meeting

9-2

Subject

Adopt (1) Second Supplemental Resolution to Resolution 8386 relating to the issuance of Waterworks General Obligation Refunding Bonds; and (2) authorize Appropriation No. 15396 in the amount of \$300,000 to pay the costs of issuance

Description

The municipal bond market has been experiencing a decline in the overall level of interest rates. As a result, Metropolitan may be able to refinance certain outstanding waterworks general obligation bonds through a current refunding to help reduce future debt service costs. In order to be prepared to take advantage of these low interest rates, the following actions are necessary. First, the Board will need to adopt the second supplemental resolution to Resolution 8386 to authorize the issuance of waterworks general obligation refunding bonds to refund certain outstanding waterworks general obligation bonds. In particular, staff has identified current refunding opportunities for the outstanding Waterworks General Obligation Bonds, Election 1966, Series A and the Waterworks General Obligation Refunding Bonds, 1993 Series A1 and 1993 Series A2. Second, the Board will need to approve an appropriation to pay the costs of issuance associated with the general obligation refunding bond issue(s).

Since the viability of these potential refundings is driven by interest rates, it is requested that this authorization extend for one year through August 31, 2003. If interest rates do not reach levels necessary to effect an economic transaction, the authorization will expire on that date unless extended by action of the Board. Resolution 8386, as amended by the first supplemental resolution (Resolution 8728), authorizes an Ad Hoc Committee made up of the Chairman of the Board, the Chairman of the Budget, Finance and Investment Committee, and the Chief Executive Officer to approve the aggregate principal amount, terms, and conditions of sale of each series of Waterworks General Obligation Refunding Bonds. This permits pricing of the refunding bonds within the narrow window of opportunity that may be available.

Metropolitan's existing refunding guidelines, which were established through the adoption of the Long Range Finance Plan, are as follows:

- Current refundings must achieve at least 3 percent (as a percent of refunding bonds) present value savings; and
- Advance refundings must achieve at least 5 percent present value savings.

Given current interest rate levels, it is estimated that Metropolitan can achieve greater than 3 percent present value savings (approximately \$1 million annually) for the proposed general obligation bond refunding candidates. Additionally, refunding the Election 1966, Series A bonds will effect the redemption of Metropolitan's last outstanding bearer bonds and produce additional savings by eliminating the ongoing administrative costs required to support these bearer bonds. The Second Supplemental Resolution also enables Metropolitan to utilize forward delivery purchase bond agreements and to enter into agreements designed to reduce the amount or duration of interest rate risk or that results in a lower cost of borrowing when used in conjunction with the issuance of refunding bonds. Staff is considering utilizing such agreements for interest rate locks. The use of forward delivery purchase bond agreements and interest rate locks provide greater flexibility to take advantage of current market conditions. The use of these products may help Metropolitan to meet refunding guidelines, given uncertainties in the interest rate market.

It is estimated that an appropriation of \$300,000 from Metropolitan's General Fund will be required to fund the costs of issuance associated with this financing. The following table details the breakdown of estimated expenses.

Legal Fees	\$ 90,000
Bond Rating Agencies	100,000
Typesetting, Printing, Mailing	25,000
Escrow Agent	10,000
Verification Agent	5,000
Financial Advisory Services	50,000
Contingency	<u>20,000</u>
Total	\$300,000

The appropriation will be designated Appropriation No. 15396. The Board is being asked to authorize reimbursement of expenses paid from the General Fund by bond proceeds, if deemed appropriate, and authorize the Chief Executive Officer to effect such reimbursement to the extent permitted under federal laws and regulations in accordance with instructions from bond counsel.

Policy

Long Range Finance Plan and adopted bond refunding guidelines. A second supplemental resolution to Resolution 8386 has been prepared in connection with the issuance of Waterworks General Obligation Refunding Bonds. Board authority is required to expend funds associated with the issuance of debt.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed actions are not defined as a project under CEQA, because they involve continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve other government fiscal activities, which do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed actions are not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and

- a. Adopt the Second Supplemental Resolution to Resolution 8386 ([Attachment 1](#)) to negotiate the sale of Waterworks General Obligation Refunding Bonds. The supplemental resolution will expire on August 31, 2003;
- b. Approve General Fund Appropriation No. 15396 against which to charge expenses associated with the sale of bonds; and
- c. Authorize the Chief Executive Officer to effect such reimbursement to the extent permitted under federal laws and regulations in accordance with instructions from bond counsel.

Fiscal Impact: Present value debt service savings of approximately \$7 to \$10 million. Estimated cost of issuance of \$300,000.

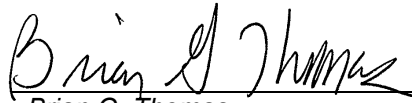
Option #2

Require staff to continue to monitor the tax-exempt municipal bond market, and seek board authorization for a debt refunding at a future date.

Fiscal Impact: Metropolitan may not be able to take advantage of favorable market conditions to reduce debt service costs (up to \$10 million on a present value basis).

Staff Recommendation

Option #1



Brian G. Thomas
Chief Financial Officer

7/23/2002

Date



Ronald R. Gastelum
Chief Executive Officer

7/30/2002

Date

Attachment 1 – Resolution

BLA #1886

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 8386
RELATING TO THE ISSUANCE OF
WATERWORKS GENERAL OBLIGATION REFUNDING BONDS
(SECOND SUPPLEMENTAL RESOLUTION)

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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 8386
RELATING TO THE ISSUANCE OF
WATERWORKS GENERAL OBLIGATION REFUNDING BONDS
(SECOND SUPPLEMENTAL RESOLUTION)**

(ADOPTED AUGUST _____, 2002)

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 of The Metropolitan Water District of Southern California (the "District"), a special election by the qualified voters of the District was duly held in the District on the 7th day of June, 1966, at which election the District was authorized to incur bonded indebtedness in the principal sum of \$850,000,000 for the purpose of acquisition and construction by the District of public improvements and works of the District, to be designated "The Metropolitan Water District of Southern California, Waterworks Bonds, Election 1966" (the "Waterworks Bonds, Election 1966"); and

WHEREAS, pursuant to the 1927 Act, as amended by California Stats. 1969, Ch. 209 (as further amended from time to time, the "Act"), and Article 11, Chapter 3, Part 1, Division 2, Title 5 of the Government Code, the Board of Directors of the District adopted Resolution 8386 on January 12, 1993, as amended and supplemented by the First Supplemental Resolution 8728 adopted on July 16, 2001 (collectively, the "1993 Resolution") to provide for the issuance of refunding bonds to redeem or retire all or part of the outstanding Waterworks Bonds, Election 1966 of the District; and

WHEREAS, at the time of the adoption of the 1993 Resolution, the following series and original principal amounts of the District's Waterworks Bonds, Election 1966 had been issued:

<u>Resolution</u>	<u>Adoption Date</u>	<u>Series</u>	<u>Original Principal 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, pursuant to Article 8, Chapter 3, Part 1, Division 2, Title 5 of the Government Code (commencing with Section 53540), the Board of Directors of the District (the "Board") is authorized without a further vote of the District's electors, to issue general obligation bonds provided that the principal amount of the bonds does not exceed the then unissued balance of principal amount of bonds authorized by the electors of the local district, the bonds are issued for the same purpose for which the unissued bonds were authorized, and the bonds are issued in accordance with the laws governing the issuance; and

WHEREAS, by Resolution 8420 adopted on September 21, 1993, the Board authorized the issuance of the District's Waterworks Bonds, Election 1966, Series H in an aggregate principal amount not to exceed \$50,000,000; and

WHEREAS, pursuant to Chapter 5 of Part 5 of the Act and Article 9 and Article 11 of Chapter 3, Part 1, Division 2, Title 5 of the Government Code of the State of California (commencing with Section 53550 or 53580, as appropriate), the Board may provide for the issuance of refunding bonds to redeem or retire all or part of the outstanding Waterworks Bonds, Election 1966 of the District; and

WHEREAS, the District desires to amend the 1993 Resolution in certain respects so as to extend the authority contained in the 1993 Resolution relating to the issuance of the Waterworks General Obligation Refunding Bonds; and

WHEREAS, pursuant to Section 6.01 of the 1993 Resolution, the District may, from time to time and at any time, adopt resolutions to amend the provisions contained in the 1993 Resolution for the purposes provided therein; and

WHEREAS, the Board has determined that the provisions of this Second Supplemental Resolution are not adverse to the interests of the registered owners of the Waterworks General Obligation Refunding Bonds;

WHEREAS, pursuant to Section 6.01(c) of the 1993 Resolution, the Board has determined it is in its best interests to adopt this resolution to amend the 1993 Resolution;

WHEREAS, the Board hereby finds and determines that it is prudent and advisable for the District to enter into one or more agreements authorized under Section 5922 of the Government Code (the "Agreements") regarding interest rates in connection with, or incidental to, the issuance or carrying of Waterworks General Obligation Refunding Bonds; and

WHEREAS, the Board has determined that the Agreements are designed to reduce the amount or duration of the interest rates risk or result in a lower cost of borrowing when used in combination with the issuance or carrying of the Waterworks General Obligation Refunding Bonds or enhance the relationship between the risk and return with respect to the District's investments and programs of investment;

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; EXTENSION OF AUTHORIZATION; DEFINITIONS

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

Section 1.02. Extension of Authorization. The Board hereby authorizes the extension of the authority set forth in the 1993 Resolution so as to allow the issuance of Waterworks General Obligation Refunding Bonds in such aggregate principal amount as determined by the Ad Hoc Committee to refund and redeem any outstanding principal amount of the Waterworks Bonds, Election 1966, including the Waterworks General Obligation Refunding Bonds, 1993 Series A1, the Waterworks General Obligation Refunding Bonds, 1993 Series A2 and the Waterworks General Obligation Bonds authorized pursuant to Resolution 6954 adopted on May 9, 1967, with such additional designation as deemed necessary and appropriate by the Ad Hoc Committee described in Section 7.01 of the 1993 Resolution. Pursuant to this Second Supplemental Resolution, the District may issue such Waterworks General Obligation Refunding Bonds at any time prior to August 31, 2003, unless otherwise directed by the Board.

Section 1.03. 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 Second Supplemental Resolution.

ARTICLE II

DETERMINATIONS; AUTHORIZATION OF AGREEMENTS

Section 2.01. Government Code Section 5922 Determinations. In accordance with Section 5922 of the Government Code, the Board hereby determines that the Agreements are designed to reduce the amount or duration of the interest rates risk or result in a lower cost of borrowing when used in combination with the issuance or carrying of the Waterworks General Obligation Refunding Bonds or enhance the relationship between the risk and return with respect to the District's investments and programs of investment.

Section 2.02. Authorization of Agreements. The Ad Hoc Committee is hereby authorized and directed to negotiate, execute and deliver, on behalf of the District (in consultation with the Chief Financial Officer of the District and the General Counsel of the District), the Agreements. The Ad Hoc Committee is hereby empowered to establish on behalf of the District (in consultation with the Chief Financial Officer of the District and the General Counsel of the District) the terms and conditions of each such Agreements 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 Government Code and the Act.

ARTICLE III

MISCELLANEOUS

Section 3.01. 1993 Resolution. The 1993 Resolution, as amended and supplemented, including by this Second 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 Second Supplemental Resolution 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 Second Supplemental Resolution and such invalidity, illegality or unenforceability shall not affect any other provision of this Second Supplemental Resolution, and this Second 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 Second Supplemental Resolution and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any of this Second Supplemental Resolution may be held illegal, invalid or unenforceable.

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 Second Supplemental Resolution.

All references herein to "Article," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Second Supplemental Resolution; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Second 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 Second 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 August 20, 2002.

Executive Secretary
The Metropolitan Water District
of Southern California