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

November 19, 2002 Board Meeting

8-2

Subject

Authorize increases in appropriations of $200,000 to pay the costs associated with the sale of water revenue bonds, general obligation bonds and interest rate swaps through June 30, 2003 (Approps. 15396 and 15372)

Description

Over the past few months, Metropolitan has taken advantage of today's low interest rate environment to refinance certain outstanding waterworks general obligation bonds and water revenue bonds through bond refundings to help reduce future debt service costs. In particular, Metropolitan refunded $55.7 million of waterworks general obligation bonds in early September that will produce net present value savings of approximately $1.8 million. Metropolitan also refunded $116.9 million of water revenue bonds in early September by utilizing an interest rate swap and an issuance of variable rate revenue bonds. Total net present value savings over the life of the transaction are estimated to be approximately $9.7 million. Savings for each of the refunding transactions include costs associated with each of the transactions.

In addition to the successful bond refundings priced in September, staff is anticipating refunding another $126 million of waterworks general obligation bonds in the very near future, pending improvement in the municipal bond market. The Board has approved a number of appropriations over the past 17 months that will enable staff to pay a portion of the costs of issuing the waterworks general obligation refunding bonds and the water revenue refunding bonds. However, due to the timing, complexity, and total number of refunding transactions priced and anticipated to be priced, it is recommended that the Board approve an increase in existing appropriations to pay the issuance costs for these transactions.

Since the viability of the additional refunding is driven by interest rates, it is requested that this authorization extend through June 30, 2003. If interest rates do not reach levels necessary to effect an economic transaction, the unused portion of the authorization will expire on that date unless extended by action of the Board.

It is estimated that an increase in existing appropriations of $200,000 will be required to fund the anticipated issuance costs associated with these financings. A portion of the bond proceeds from each of the September bond transactions are on hand, and available for payment of issuance costs.

The Board approved Appropriations Nos. 15396, 15353 and 15372 to fund costs of issuance associated with the general obligation bond and revenue bond issues. About $650,000 of these appropriations is remaining and available to fund the costs of issuance associated with the recently completed General Obligation 2002 Series A and Revenue Bonds, 2002 Series A and B issues. It is requested that an additional $200,000 ($65,000 to Appropriation No. 15396 and $135,000 in Appropriation No. 15372) be added to these appropriations to provide for the payment of the costs of issuance for the General Obligation Refunding Bonds, 2002 Series B anticipated in the next six months and to pay for legal costs and other technical work associated with the interest rate swap and variable rate revenue refunding bonds issued in September. The latter transaction took almost a year to put together and required significant structuring, tax and other legal work to achieve the additional savings realized by Metropolitan.

Issuance costs for Appropriation No. 15396 are estimated to be greater than $300,000 (the original appropriation) because the transaction was split into two sales. Given market conditions in September, it was determined to execute the current refunding portion only. Staff now anticipates that the second refunding bond issue (the 2002 Series B bonds) will be priced during the November 2002 to March 2003 time period.

As noted above, the savings from these refunding bond issues are net of the cost of issuance. In order to ensure timely payment, some of these costs may be paid from the General Fund. As such, it is also recommended that the Board authorize reimbursement of any expenses paid from the General Fund by bond proceeds, 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

Metropolitan Water District Administrative Code § 5108: Capital Project Appropriation

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 the creation of government funding mechanisms or other 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 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. Approve an increase in Appropriation No. 15396 in the amount of $65,000 against which to charge expenses associated with the issuance of debt;
b. Approve an increase in Appropriation No. 15372 in the amount of $135,000 against which to charge expenses associated with the issuance of debt and interest rate swaps; 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: Estimated costs of issuance of $200,000

Option #2

Seek board authorization to pay issuance costs associated with the additional 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.

Staff Recommendation

Option #1

	10/22/2002
Brian G. Thomas	*Date*
Chief Financial Officer	
	10/28/2002
Ronald R. Gastelum	*Date*
Chief Executive Officer	

BLA #2023