

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

December 10, 2002 Board Meeting

8-1

Subject

Approve an \$80,000 increase in payments for calendar year 2002 for financial advisory services under agreement with Public Resources Advisory Group

Description

Background

Since January 2000, Public Resources Advisory Group has served as Metropolitan's financial advisor, along with Kelling Northcross & Norbriga and Estrada Hinojosa & Company (collectively, "Financial Advisors"). The main services provided by the Financial Advisors include the following:

- Advice as to the timing, method, and structure of debt financings.
- Assistance in negotiating the terms and conditions of interest rate swap agreements.
- Assistance in evaluating opportunities to refinance and restructure debt.
- Preparation of detailed financial analysis and review of financial products, including documents related to the sale of debt and investment of debt proceeds.
- Assisting Metropolitan when negotiating contracts and soliciting bids for various services associated with financial transactions.
- Other financial advisory services as requested by Metropolitan.

Attachment 1 lists the detailed scope of work provided by the Financial Advisors under the current agreement.

Metropolitan's agreement with the Financial Advisors is for a three-year period (ending December 31, 2002). The maximum amount payable over the term of the agreement is \$240,000 per contract year. As of October 31, 2002, Metropolitan has paid \$234,738 to the Financial Advisors for services provided during the 2002 contract year.

In a typical contract year under the terms of Metropolitan's agreement with its Financial Advisors, one or two debt financing transactions may occur. Because of the declining interest rate market in 2002, Metropolitan has already executed a general obligation bond refunding and a water revenue bond refunding that included integration of interest rate swaps with the refunding transaction. These transactions will produce annual savings of about \$900,000, or \$11.5 million on a net present value basis. Due to the difficult and complex technical issues associated with the water revenue refunding bonds and the integration of the interest rate swaps, a considerable amount of time and effort was spent by Metropolitan's staff, financial advisors, bond counsel, tax counsel, and swap team. The focus by the Financial Advisors on the technical demands related to the bond transaction and swap agreements enabled Metropolitan to realize additional savings that otherwise would not have been possible. In addition to the recent refunding transactions, the Financial Advisors also assisted Metropolitan in increasing its variable rate exposure to 32 percent of total revenue bonds outstanding (current board policy) through the use of interest rate swaps totaling \$200 million. The fixed receiver swap transactions have produced over \$2.3 million of positive cash flow for Metropolitan and had a positive market value of over \$9 million at the end of September. The Financial Advisors also provided analysis in support of Metropolitan's efforts to realize debt service savings through the cash defeasance program.

Pending market conditions, the potential exists for another waterworks general obligation refunding bond transaction by the end of the 2002 contract year whereby Metropolitan would pay a \$50,000 fee to the Financial Advisors for financial advisory services associated with the refunding transaction. In addition, for the remainder of contract year 2002, the Financial Advisors will perform financial advisory services for Metropolitan in accordance with the terms of the current agreement (compensation is based on an hourly fee basis, and is estimated to be up to \$30,000 through December 31, 2002). Based on the work performed by the Financial Advisors through the end of October, the pending bond refunding transaction, and other compensation for financial advisory services in accordance with the existing agreement, staff estimates that payments to the Financial Advisors for the 2002 contract year could total as much as \$320,000. Therefore, payments to the Financial Advisors for contract year 2002 are estimated to be \$80,000 greater than the maximum amount payable permitted under the agreement.

Policy

Metropolitan Water District Administrative Code § 8115 (a): Negotiated Contracts

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA, because it involves continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves 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 action is 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 approve additional payments up to \$80,000 to a total of \$320,000 under Agreement No. 26456 for contract year 2002.

Fiscal Impact: Up to \$80,000

Option #2

Do not approve the additional payments under Agreement No. 26456 for contract year 2002.

Fiscal Impact: Metropolitan would not receive financial advisory services from the Financial Advisors for the remainder of the 2002 contract year.

Staff Recommendation

Option #1



Brian G. Thomas
Chief Financial Officer

11/22/2002

Date



Ronald R. Gastelum
Chief Executive Officer

11/22/2002

Date

Attachment 1 – Financial Advisory Services: Scope of Work

BLA #2055

Financial Advisory Services Scope of Work

Public Resources Advisory Group, serving as Metropolitan's financial advisor, will provide Metropolitan financial advisory services to include but not limited to the following services and commitments:

- (a) Provide Metropolitan with information, judgments, and forecasts regarding economic, capital market, and money market conditions.
- (b) Advise Metropolitan on the timing, method, and structure of Metropolitan's bond sales. Assist and advise Metropolitan in negotiating the amount and components of the underwriters' spread, pricing, and other terms of the bond sale, including verification of the true-interest-cost of winning bids for a competitive bond sale by Metropolitan.
- (c) Assist and advise Metropolitan in evaluating opportunities to refinance and restructure outstanding Metropolitan debt.
- (d) Evaluate and advise Metropolitan on the use of new and complex debt structures, including various derivative and swap products that are proposed to Metropolitan. May also be required to prepare a detailed financial analysis and review of such debt structures and financial products.
- (e) Assist Metropolitan in negotiating contracts, such as swaps, investment agreements, purchases and sales of assets.
- (f) Solicit bids related to escrow funds, insurance, swap rates, lines of credit, and any other bids Metropolitan may request.
- (g) Assist Metropolitan in updating and implementing strategies, plans, and policies. This includes analyzing short, intermediate, and long-term financing options, and ongoing surveys of the financial activities of public and private water utilities and, if requested, electric utilities.
- (h) Assist Metropolitan in preparing and reviewing documents necessary for the sale of its securities and investment of the proceeds thereof.
- (i) Assist Metropolitan, in coordination with Metropolitan's General Counsel and Bond Counsel in ensuring that applicable laws and regulations relating to security offerings are followed.
- (j) Assist Metropolitan in preparing for meetings with rating agencies and investors.
- (k) Assist Metropolitan in reviewing and analyzing legislation that may have a financial impact on Metropolitan.

- (l) Comment on reports, mainly on financial matters, that have been completed or are being prepared by Metropolitan staff.
- (m) Assist Metropolitan staff in reviewing RFPs for investment banking services and the selection of underwriting teams.
- (n) Upon request, prepare special studies of a financial nature and review new financial products or techniques that may be proposed to Metropolitan.
- (o) Attend Metropolitan's monthly Budget, Finance and Investment Committee meetings and, upon request, attend other various meetings of the Board and subcommittee meetings. Consultant may be asked to make presentations to the Board of Directors, the Budget, Finance and Investment Committee and any subcommittee.

The financial advisor shall assist Metropolitan in other matters related to financial advisory services as mutually agreed upon.

Metropolitan reserves the right to amend responsibilities of financial advisor consistent with this general scope of work.