

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

March 11, 2003 Board Meeting

9-2

Subject

Adopt resolution authorizing execution of agreement for low-interest financing from the Drinking Water State Revolving Fund for the Oxidation Retrofit Program at the Henry J. Mills Filtration Plant, and pledging funds for repayment

Description

The California Department of Health Services (CDHS) has approved Metropolitan's application for a \$20 million loan from the Drinking Water State Revolving Fund (DWSRF) for the Oxidation Retrofit Program at the Henry J. Mills Filtration Plant. The 20-year loan will bear interest at a 2.39 percent fixed rate, which compares favorably to an estimated average rate of 4.40 percent for Metropolitan's water revenue bonds.

The DWRSF was created under the 1996 amendments to the Safe Drinking Water Act. In August 2000, Metropolitan's Board authorized the Chief Executive Officer to apply for DWRSF loans for the Mills and Jensen filtration plants.

The resolution (**Attachment 1**) authorizes the Chief Financial Officer to execute the loan agreement, in the form required by CDHS, with such changes as are required by the Chief Financial Officer and the General Counsel. The resolution also pledges funds for the loan's repayment, as required by the loan documents. The loan will be repaid from water revenues after payment of debt service on water revenue bonds and other prior lien obligations.

In November 2000, the Board authorized a \$43.5 million capital appropriation from the Oxidation Retrofit Program (Approp. 15173) for construction of the oxidation retrofit improvements at the Mills plant. The appropriation was subsequently increased to \$80.1 million by the Board in September 2002, for construction of oxidation retrofit improvements at the Jensen filtration plant. The Mills filtration plant improvements are expected to be completed by March 31, 2003. Loan proceeds will be used to reimburse Metropolitan for these capital expenditures.

Policy

Prior board action

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The environmental effects from the construction of the Oxidation Retrofit Program were originally evaluated in the Henry J. Mills Water Filtration Plant Expansion Final Environmental Impact Report (Final EIR), which was certified by the Board in February 1991. The Board also approved the Findings of Fact, the Mitigation Monitoring and Reporting Program, and the overall expansion, including the Oxidation Retrofit Program. The present proposed board action is solely based on entering into an agreement for low-interest financing from the DWRSF and not on any changes to the Oxidation Retrofit Program itself. Hence, the previous environmental documentation taken by the Board in conjunction with the proposed action fully complies with CEQA and the State CEQA Guidelines. As such, no further CEQA documentation is necessary for the Board to act on the proposed action.

The CEQA determination is: Determine that the proposed action has been previously addressed in the 1991 certified Final EIR and that no further environmental analysis or documentation is required.

CEQA determination for Option #2:

None required

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and the resolution ([Attachment 1](#)), authorizing execution of agreement for low-interest financing from the Drinking Water State Revolving Fund for the Oxidation Retrofit Program for the Henry J. Mills Filtration Plant, and pledging funds for repayment.

Fiscal Impact: \$5 million (the amount of interest payable over the 20-year term of the loan)

Option #2

Do not adopt the resolution authorizing execution of financing agreement.

Fiscal Impact: \$10.3 million (the amount of interest payable assuming the project will be funded at the estimated cost of capital for Metropolitan's water revenue bonds)

Staff Recommendation

Option #1



Brian G. Thomas
Chief Financial Officer

2/14/2003

Date



Ronald R. Gastelum
Chief Executive Officer

2/15/2003

Date

Attachment 1 – Resolution

BLA #2109

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

RESOLUTION _____

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA AUTHORIZING EXECUTION OF LOAN AGREEMENT AND PLEDGING FUNDS FOR REPAYMENT

WHEREAS, on August 22, 2000, the Board of Directors of The Metropolitan Water District of Southern California authorized the Chief Executive Officer to execute an application for a low-interest loan from the State of California under the California Safe Drinking Water State Revolving Fund Law of 1997, to finance Oxidation Retrofit Program improvements (the "Project") at the Henry J. Mills Filtration Plant; and

WHEREAS, the California Department of Health Services has notified Metropolitan that the Project is eligible for a \$20 million construction loan at a fixed interest rate of 2.39 percent, to be repaid over a twenty-year term; and

WHEREAS, Metropolitan's obligation to repay such loan will be secured by a subordinate pledge of net operating revenues, as provided in this Resolution;

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California, DOES HEREBY RESOLVE, DETERMINE AND ORDER as follows:

Section 1. That Metropolitan is authorized to enter into the construction loan described in the Recitals to this Resolution, on the terms and subject to the conditions set forth in the Funding Agreement Between State of California Department of Water Resources and Metropolitan Water District of Southern California, Project Number 1910087-02, substantially in the form on file with the Executive Secretary (the "Funding Agreement").

Section 2. That the Chief Executive Officer or his designee is authorized to execute the Funding Agreement, in form approved by the General Counsel.

Section 3. That to provide security for payment of the principal and interest as they become due under the Funding Agreement, there is hereby granted a lien on and pledge of Net Operating Revenues (defined below); provided, however, that such lien and pledge shall be subject and subordinate to the lien and pledge on the Net Operating Revenues securing the payment of Metropolitan's outstanding water revenue bonds and parity obligations, as described in Section 4.

For purposes of this Resolution, "Net Operating Revenues" shall mean revenues received by Metropolitan from charges for the sale and availability of water, after payment of all necessary expenditures for operating and maintaining Metropolitan's properties, works, and facilities, including (i) expenditures for operation, maintenance, power and replacement charges payable under the contract between the State of California Department of Water Resources and Metropolitan dated November 4, 1960, as amended from time to

time, and the Devil Canyon-Castaic Contract dated June 23, 1972, as amended from time to time, (ii) contributions to medical, health, retirement or other similar benefits of Metropolitan's employees and annuitants and (iii) other expenditures generally classified as operating and maintenance expenditures.

Section 4. The lien and pledge provided in this Resolution is expressly subject and subordinate to the lien and pledge on the Net Operating Revenues securing the payment of principal and accreted value of, premium, if any, interest on, and any reserve requirements for, or other obligations with respect to (i) Metropolitan's bonds, notes or other evidences of indebtedness or obligations authorized under the Master Resolution for Metropolitan's Water Revenue Bonds (Resolution 8329, as amended from time to time), and (ii) obligations issued on a parity with bonds, notes or other evidences of indebtedness or other obligations issued under such Master Resolution.

Section 5. That the Chief Executive Officer and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on March 11, 2003.

Executive Secretary
The Metropolitan Water District of
Southern California