

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

May 13, 2003 Board Meeting

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**8-1**

**Subject**

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Authorize Appropriation No. 15409 in the amount of \$725,000 to pay the costs associated with the sale of water revenue bonds and interest rate swaps through December 31, 2003

**Description**

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Over the years, Metropolitan has taken advantage of historically low interest rates to refinance certain outstanding waterworks general obligation bonds and water revenue bonds through bond refundings to reduce future debt service costs. Metropolitan's most recent bond refunding was priced in January 2003, whereby Metropolitan refunded \$125 million of waterworks general obligation bonds that will produce net present value savings of approximately \$10.9 million. Savings for the refunding transaction included all costs associated with the transaction. In addition to the successful bond refunding priced in January, staff is anticipating refunding another \$33 million to \$100 million of water revenue bonds in the next six to nine months depending on interest rate levels.

At the April 8, 2003 meeting of Metropolitan's Board of Directors, Metropolitan's bond refunding guidelines were changed. The new bond refunding guidelines reflect different interest rate markets and provide additional opportunities for refundings of Metropolitan's bonds. Staff in conjunction with Metropolitan's financial advisors and investment banking team, will determine the individual water revenue bond candidates that may be available to be refunded at this time. Metropolitan's Ad Hoc Committee comprised of the Chairman of the Board, the Chairman of the Budget, Finance and Investment Committee, and the Chief Executive Officer will approve execution of any refunding transaction.

In order to effect refundings of Metropolitan's debt, an appropriation of \$725,000 from Metropolitan's General Fund will be required to fund the costs of issuance associated with the potential financing and potential interest rate swap transactions. If interest rates do not reach levels necessary to effect an economic transaction, the unused portion of the authorization will expire on December 31, 2003 unless extended by action of the Board. The following table details the breakdown of the estimated expenses needed for a current and advance refunding of certain of Metropolitan's outstanding water revenue bonds, and an interest rate swap transaction in conjunction with an advance refunding of certain of Metropolitan's outstanding water revenue bonds.

Bond Counsel / Bank Counsel Fees	\$310,000
Bond Rating Agencies	175,000
Financial Advisory Services	150,000
Typesetting, Printing, Mailing	50,000
Escrow / Paying Agents	10,000
Verification Agent	10,000
Contingency	<u>20,000</u>
Total	\$725,000

The appropriation will be designated Appropriation No. 15409. This appropriation would cover up to three transactions and would expire on December 31, 2003, unless extended by the Board. Staff also recommended

that the Board authorize reimbursement of 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**

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Metropolitan Water District Administrative Code § 5108: Capital Project Appropriation

**California Environmental Quality Act (CEQA)**

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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 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 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**

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**Option #1**

Adopt the CEQA determination and

- a. Approve General Fund Appropriation No. 15409 in the amount of \$725,000, against which to charge expenses associated with the sale of water revenue bonds and interest rate swaps; and
- b. Authorize the reimbursement of expenses paid from the General Fund by bond proceeds. The authorization will expire on December 31, 2003.

**Fiscal Impact:** \$725,000

**Option #2**

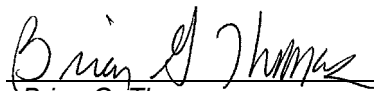
Do not approve Appropriation No. 15409.

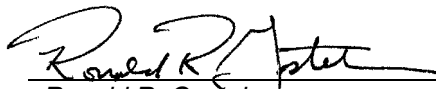
**Fiscal Impact:** Missed opportunity to lower debt service costs.

**Staff Recommendation**

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Option #1

	4/24/2003
Brian G. Thomas Chief Financial Officer	Date

	4/28/2003
Ronald R. Gastelum Chief Executive Officer	Date