MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

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

August 19, 2003 Board Meeting

8-4

Subject

Approve reauthorization for purchase or tender of Metropolitan's bonds in the secondary market and extend Fourteenth Supplemental Resolution

Description

Bond Purchase Program. In September 1995, the Board approved the update to the Long Range Finance Plan which included a recommendation authorizing the Chief Executive Officer to purchase Metropolitan bonds in the secondary market subject to the following conditions:

- Maximum purchase price not to exceed 100 percent of par value;
- No restrictions on maturity dates of the bonds subject to purchase;
- Aggregate amount of the authorization not to exceed $75 million;
- Purchased bonds must be canceled and retired, and may not be held for investment or resold;
- The authorization was valid for 12 calendar months, following the month of adoption; and
- A report would be presented to the Board in the month following each use of the authority.

The original authorization to purchase Metropolitan bonds in the secondary market expired in August 1996 without use of this authority. Since that time reauthorizations have been renewed at the end of each fiscal year until June 2001, when the authorization expired.

This strategy was also included in the 1999 update to the Long Range Finance Plan. While Metropolitan has never utilized this strategy, this authority would allow Metropolitan to take advantage of certain market conditions whereby outstanding Metropolitan debt would sell at a discount to par for reasons generally unrelated to Metropolitan. The authorization for bond purchases would allow Metropolitan to quickly enter the secondary market to purchase Metropolitan debt that is selling at deep discounts (discounts of greater than 5 percent). Therefore, it is recommended that the Chief Executive Officer be authorized to use unrestricted funds in an amount not to exceed $75 million to be used to purchase discounted debt. The current authorization will expire on August 31, 2003.

Bond Tender Program. In June 2000, the Board approved a number of financing transactions, including a $500 million bond tender program. The authorization for the bond tender program expired on May 31, 2001. A bond tender program is a formal process of identifying and notifying holders of Metropolitan's debt in the secondary market that Metropolitan seeks to buy back some of its debt. Tendered bonds could be funded with variable rate debt, helping to reduce interest costs while meeting board-approved variable rate debt objectives.

In the coming year, market conditions for Metropolitan bonds in the secondary market may offer Metropolitan the opportunity to take advantage of a bond tender program. Providing another authorization for tendered bonds will allow Metropolitan to take full advantage of interest rate and other market conditions that could cause a reduction in the price of Metropolitan's bonds in the secondary market.

In order to take maximum advantage of changes in market conditions, it is also recommended that the Board extend the supplemental resolution authorizing the issuance of variable rate water revenue bonds in an aggregate amount not to exceed $500 million, to be used to purchase tendered bonds and fund all related cost of issuance.

The supplemental resolution, consistent with past practice, establishes an Ad Hoc Committee with authority to set the size of any debt offering, determine the date of a debt offering, sell bonds to an underwriting syndicate, and to pursue the financing options. The Ad Hoc Committee will be comprised of the Chairman of the Board, the Chairman of the Budget, Finance and Investment Committee, and the Chief Executive Officer.

The marketing of variable rate revenue bonds, used for the purchase of tendered bonds, will require the selection of one or more underwriters to underwrite the original issuance and to remarket the variable rate debt as it comes due at nominal daily or weekly maturities. As is typical with Metropolitan's issuance of variable rate debt, a bank will be selected to provide standby liquidity in case the bonds are not successfully remarketed. In addition, Metropolitan would use a Tender Agent to identify and contact owners of Metropolitan's debt and manage the formal bond tender process. The supplemental resolution authorizes the Ad Hoc Committee to approve the selection of the underwriters, standby bank and Tender Agent. The current supplemental resolution will expire on August 31, 2003, unless otherwise directed by the Board. Staff is requesting to extend the expiration date of the Fourteenth Supplemental Resolution to August 31, 2004.

Policy

To take advantage of market opportunities to reduce Metropolitan's debt service costs

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. Authorize the Chief Executive Officer to use up to $75 million of unrestricted funds in an amount not to exceed $75 million to purchase discounted Metropolitan bonds in the secondary market; and
b. Extend the expiration date of the bond authorization under the Fourteenth Supplemental Resolution to August 31, 2004.

Fiscal Impact: Reduction of Metropolitan's revenue bond debt service

Option #2

Do not re-authorize the Chief Executive Officer to purchase Metropolitan bonds in the secondary market nor authorize the issuance of variable rate bonds for purchase of Metropolitan bonds through a bond tender program.

Fiscal Impact: Metropolitan may not be able to take advantage of market conditions to reduce debt obligations.

Staff Recommendation

Option #1

Brian G. Thomas	7/22/2003
Chief Financial Officer	*Date*

Ronald R. Gastelum	7/24/2003
Chief Executive Officer	*Date*

BLA #2388