

- **Board of Directors**
Business and Finance Committee

January 9, 2007 Board Meeting

7-1

Subject

Approve (1) Appropriation No. 15444 to pay costs of issuance for Water Revenue Refunding Bonds; and (2) Appropriation No. 15445 to pay costs of issuance for Waterworks General Obligation Refunding Bonds through December 31, 2007

Description

Over the past few years, Metropolitan has been able to take advantage of historically low interest rate markets to refinance existing bonds and lower the costs of financing the capital investment plan. Interest rates continue to be at historically low levels and additional opportunities to refinance water revenue bonds and waterworks general obligation bonds are currently available to Metropolitan. Since 2000, Metropolitan has been able to reduce debt service payments by over \$100 million on a net present value basis through the prudent use of bond refundings and interest rate swaps. In addition, Metropolitan has reduced annual revenue requirements through the prudent use of unrestricted reserve balances to cash defease outstanding debt. Cash defeasances from 2000 to 2005 will reduce debt service payments through 2021 by about \$248 million.

Metropolitan's authority to enter into water revenue refunding bond transactions is through the Fourth Supplemental Water Revenue Bond Resolution (Resolution 8387); and for general obligation refunding bonds, through the Third Supplemental General Obligation Bond Resolution (Resolution 8386, as amended). Each supplemental resolution authorizes the Ad Hoc Committee made up of the Chairman of the Board; the Chairman of the Budget, Finance, Investment, and Insurance Committee; and the General Manager to approve the aggregate principal amounts, terms, and conditions of sale of each series of Water Revenue Refunding Bonds or Waterworks General Obligation Refunding Bonds.

Appropriations for Transaction Costs

Should opportunities arise to refund water revenue bonds or general obligation bonds, an appropriation will be required to pay expenses associated with the issuance of Water Revenue Refunding Bonds, and the issuance of Waterworks General Obligation Refunding Bonds. Any bond refunding transaction will be in accordance with Metropolitan's bond refunding guidelines. Appropriation No. 15444 will be designated for two water revenue refunding bond transactions, and Appropriation No. 15445 will be designated for a general obligation refunding bond transaction. Each appropriation will have an expiration date of December 31, 2007.

The following table provides a breakdown of estimated expenses for Appropriation No. 15444 for two potential water revenue refunding bond transactions:

Legal Counsel Fees	\$ 240,000
Rating Agency Fees	200,000
Financial Advisory Fees	100,000
Printing/Mailing	50,000
Escrow/Verification/Other	<u>25,000</u>
Total	\$ 615,000

The following table provides a breakdown of estimated expenses for Appropriation No. 15445 for a general obligation refunding bond transaction:

Legal Counsel Fees	\$ 100,000
Rating Agency Fees	85,000
Financial Advisory Fees	50,000
Printing/Mailing	25,000
Escrow/Verification/Other	<u>15,000</u>
Total	\$ 275,000

Actual expenses for each appropriation would be reduced if one or more of the proposed transactions are modified or do not occur. Expenses for bond refunding transactions are incorporated into the savings analysis reported to the Board (savings are reported net of all expenses). Staff is in the process of identifying refunding opportunities, and determining the financing teams to be used for any refunding transaction.

Policy

Chapter 1.6 of Part 5 (Sections 235-239.4) of the Metropolitan Water District Act: Revenue Bonds
Metropolitan Water District Administrative Code Section 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

Option #1

Adopt the CEQA determination and

- a. Authorize General Fund Appropriation No. 15444 in the amount of \$615,000 to cover the expenses associated with water revenue refunding bond transactions;
- b. Authorize General Fund Appropriation No. 15445 in the amount of \$275,000 to cover the expenses associated with a general obligation refunding bond transaction; and
- c. Authorize reimbursement of expenses paid from the General Fund by bond proceeds. The appropriations would expire on December 31, 2007.

Fiscal Impact: Reduction in debt service payments thereby mitigating anticipated increases in water rates and reducing the annual tax levy

Business Analysis: Authorization to fund costs associated with the issuance of water revenue and general obligation refunding bonds is required.

Option #2


Do not proceed with authorization for appropriations to fund potential bond refunding transactions.

Fiscal Impact: May miss the opportunity to reduce debt service costs at favorable interest rate levels

Business Analysis: Capital market access would be delayed, thereby limiting Metropolitan's options or ability to reduce debt service costs.

Staff Recommendation

Option #1



Brian G. Thomas
Chief Financial Officer

12/8/2006
Date



Jeffrey Kightlinger
General Manager

12/19/2006
Date

BLA #5072