



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

August 18, 2009 Board Meeting

7-1

Subject

Approve an increase of \$1 million to Appropriation No. 15456 to pay costs of issuance of Water Revenue Bonds and Water Revenue Refunding Bonds

Description

While almost all of Metropolitan's expenses associated with bond transactions are paid with proceeds from the transaction, an appropriation is required to authorize payment of expenses associated with the issuance of Water Revenue Bonds, Water Revenue Refunding Bonds, or interest rate swap transactions. In August 2008, the Board approved a \$1.4 million appropriation (No. 15456) for estimated expenses associated with the issuance of Water Revenue Bonds, Water Revenue Refunding Bonds, and interest rate swap transactions anticipated to occur through August 31, 2010. As the financial markets collapsed, Metropolitan responded by issuing both new money and refunding bonds to take advantage of market volatility, lowered interest rates, and new debt programs. Since August 2008, Appropriation No. 15456 has been used to fund expenses associated with the following transactions:

- January 2009: \$200 million Water Revenue Bonds, 2008 Authorization, Series A
- May 2009: \$208.4 million Water Revenue Refunding Bonds, 2009 Series A-1 and A-2
- June 2009: \$21.6 million Water Revenue Bonds, 2008 Authorization, Series B
- June 2009: \$78.4 million Water Revenue Bonds (Build America Bonds), 2008 Authorization, Series C
- June 2009: \$106.7 million Water Revenue Refunding Bonds, 2009 Series B
- June 2009: \$91.2 million Water Revenue Refunding Bonds, 2009 Series C

Total: \$606.3 million

The above-referenced financings provided Metropolitan with \$300 million of new money to fund the ongoing capital program, including \$78.4 million of Build America Bonds. Under the newly authorized Build America Bonds program, Metropolitan issued taxable bonds and will receive a payment from the federal government equal to 35 percent of the interest cost for the life of the bonds. In addition, the bond refundings were issued to refund outstanding variable rate debt that was supported by credit facilities from recently downgraded liquidity providers (e.g., Dexia and West LB).

Given the number and complexity of these recent financings, the costs of issuance associated with that activity will total approximately \$1.1 million, leaving approximately \$300,000 remaining in the original appropriation. Staff anticipates this will be insufficient to pay the expenses associated with the upcoming issuance of new money Water Revenue Bonds; the potential issuance of additional Water Revenue Refunding Bonds to address ongoing concerns and lack of credit support for Metropolitan's variable rate debt program; and any interest rate swap transactions. Therefore, authorization to pay for expenses for up to two new money bond issues, one to two bond refundings, other costs associated with securing liquidity for expiring variable rate debt liquidity facilities, and costs associated with any interest rate swap transactions will be required. Given the additional transactions under

consideration, an increase in Appropriation No. 15456 will be required. Staff estimates that up to an additional \$1 million above the \$1.4 million appropriation will be required.

The following table provides a breakdown of estimated expenses for the proposed \$1 million increase to Appropriation No. 15456 (from \$1.4 million to \$2.4 million):

| | |
|--------------------------------|---------------|
| Rating Agency Fees | \$ 360,000 |
| Legal Counsel Fees | 250,000 |
| Financial / Swap Advisory Fees | 250,000 |
| Printing | 70,000 |
| Other Fees / Contingency | <u>70,000</u> |
| Total | \$1,000,000 |

As originally authorized, the appropriation would expire on August 31, 2010, unless extended by the Board. Actual costs could be less than appropriated if one or more of the proposed transactions are modified or do not occur. Expenses for bond refundings are incorporated into the savings analysis (savings are reported net of all expenses) for such transactions.

Policy

Metropolitan Water District Administrative Code Section 5108: Appropriations

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 approve an increase of \$1 million to Appropriation No. 15456 to pay costs of issuance of Water Revenue Bonds, Water Revenue Refunding Bonds, other costs associated with securing liquidity for expiring variable rate debt liquidity facilities, and interest rate swap transactions, and authorize reimbursement of expenses paid from the General Fund by bond proceeds. The appropriation will expire on August 31, 2010.

Fiscal Impact: Costs of issuance are generally paid from the bond proceeds. As such, increasing the appropriation will not have an impact on the 2009/10 budget. Debt service associated with planned bond issues will increase by \$25 million - \$30 million per year in fiscal years 2010/11 and beyond.

Business Analysis: Metropolitan needs authorization to provide funding to pay for expenses associated with the issuance of water revenue bonds and interest rate swap transactions.

