



- Board of Directors
Finance and Insurance Committee

12/13/2011 Board Meeting

7-1

Subject

Approve amendment to Agreement No. 119116 with Public Resources Advisory Group to authorize a \$125,000 increase in maximum amount payable for financial advisory services

Description

Public Resources Advisory Group (PRAG) is Metropolitan's primary financial advisor. PRAG's services to Metropolitan under agreement No. 119116 include:

- Advice on the timing, method, and structure of debt financings;
- Assistance and advice to Metropolitan in negotiating the amount and components of the underwriter's fees, pricing, and other terms of a bond sale;
- Assistance in negotiating the terms and conditions of interest rate swap agreements;
- Assistance in evaluating opportunities to refinance and restructure debt including escrow restructurings;
- Preparation of detailed financial analysis and review of financial products, including documents related to the sale of debt and investment of debt proceeds;
- Assisting Metropolitan when negotiating contracts and soliciting bids for various services associated with financial transactions;
- Coordinating and developing rating agency strategies and meetings; and
- Other financial advisory services as requested by Metropolitan.

In a typical contract year under the terms of Metropolitan's agreement with its financial advisors, two or three debt financing transactions may occur. Periodically, Metropolitan has to utilize the services of PRAG much more than in a typical contract year. During the current contract year (March 2011 to February 2012), PRAG has provided financial advisory services for the following financings:

- \$228.9 million, Water Revenue Refunding Bonds, 2011 Series A-1 to A-4;
- \$167.9 million, Water Revenue Refunding Bonds, 2011 Series B;
- \$157.1 million, Water Revenue Refunding Bonds, 2011 Series C;
- \$104.2 million, Water Revenue Refunding Bonds, 2009 Series A-1, SIFMA Index Notes (re-pricing); and
- \$104.2 million, Water Revenue Refunding Bonds, 2009 Series A-2, SIFMA Index Notes (re-pricing).

Due to the number of financial transactions during the current contract year and based on work anticipated to be performed by PRAG, including additional re-pricings of SIFMA

Index Notes, staff estimates that services provided by PRAG will approximate \$315,000 for the year, which would be \$75,000 greater than the maximum amount payable of \$240,000 as identified in the agreement. Staff recommends that the Board authorize an amendment to the agreement with PRAG to increase the maximum amount payable for contract year 2011/12 by \$75,000 to a new maximum of \$315,000.

In addition, for the March 2012 to February 2013 contract year, staff anticipates that financial advisory services will be needed over and above the services for a typical contract year. Financial advisory services by PRAG will be required for the following:

- Pricing of at least one new money water revenue bond issue to provide funding for the ongoing capital investment plan;
- Potential refunding of a portion of outstanding water revenue bonds, which may or may not be associated with interest rate swap agreements;
- Renewal of expiring liquidity facilities for approximately \$260 million for four series of variable rate water revenue bonds. Metropolitan will have to either solicit liquidity from other providers, or issue additional refunding bonds for all or a portion of the \$260 million primarily due to the increasing costs and bank credit risks associated with liquidity facilities for Metropolitan's variable rate debt program; and
- Scheduled re-pricings of Metropolitan's SIFMA Index Notes.

Given the financial advisory services anticipated to be needed during the March 2012 to February 2013 contract year, staff estimates that payments may be as much as \$50,000 greater than the maximum amount payable of \$240,000 as identified in the agreement. Staff recommends that the Board authorize an amendment to the agreement with PRAG to increase the maximum amount payable for contract year 2012/13 by \$50,000 to a new maximum of \$290,000.

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: Appropriations

Metropolitan Water District Administrative Code Section 8115 (a): Negotiated Contracts

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves 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 the provisions of 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. Approve amendment to Agreement No. 119116 with Public Resources Advisory Group to authorize an increase of \$75,000 in annual maximum amount payable to a total of \$315,000 for contract year 2011/12; and
- b. Approve an increase of \$50,000 in annual maximum amount payable to a total of \$290,000 for contract year 2012/13.

Fiscal Impact: Potential to lower financing costs of Metropolitan's capital investment plan. Services provided by Metropolitan's financial advisors are generally paid from bond proceeds; additional costs, if any, will not have a significant impact on Metropolitan's 2011/12 and 2012/12 operations.

Business Analysis: Board authorization is required for increased funding above \$250,000 per contract year for financial advisory agreements.

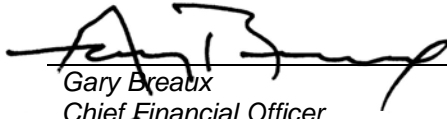

Option #2

Do not authorize increase to Agreement No. 119116 for contract years 2011/12 and 2012/13.

Fiscal Impact: Metropolitan would not be able to receive financial advisory services from its primary financial advisor for the remainder of contract year 2011/12, and may not be able to receive financial advisory services for a portion of contract year 2012/13.

Staff Recommendation

Option #1

 <hr/> Gary Breaux Chief Financial Officer	11/14/2011 Date
 <hr/> Jeffrey Kightlinger General Manager	12/1/2011 Date