



- Board of Directors
Finance and Insurance Committee

5/8/2012 Board Meeting

8-3

Subject

Approve Appropriation No. 15475 to pay costs of issuance of Water Revenue Bonds, Water Revenue Refunding Bonds, and Interest Rate Swap Transactions

Description

An appropriation is required to pay expenditures associated with the issuance of Water Revenue Bonds, Water Revenue Refunding Bonds, Interest Rate Swap Transactions, and costs for the renewal or replacement of liquidity bank facilities associated with Metropolitan’s variable rate debt program. In August 2010, the Board approved Appropriation No. 15469 to pay the costs of issuance for multiple financing transactions anticipated through August 2012. Staff anticipates that funding available in Appropriation No. 15469 will be exhausted during May 2012. Therefore, a new appropriation authorizing the payment of expenditures will be required to enable Metropolitan to take advantage of market opportunities to lower the financing costs of the Capital Investment Plan (CIP), and to reduce risks associated with managing the debt and interest rate swap portfolios through the issuance of new money and refunding bond transactions, and interest rate swap transactions.

As presented to the Board within the biennial budget for fiscal years 2012/13 and 2013/14, Metropolitan will continue to need to access the capital markets to finance the funding requirements of the CIP. In addition, market opportunities to lower the ongoing financing costs of the CIP could materialize and additional market opportunities may enable Metropolitan to mitigate or eliminate various risks associated with managing the debt and interest rate swap portfolios. Staff anticipates that over the next two years (from May 2012 to May 2014), Metropolitan will need to pay the costs for multiple bond issuances, including the potential for a number of bond refundings, pay the costs for multiple renewal or replacements of liquidity bank facilities associated with Metropolitan’s variable rate debt program, and pay the costs of interest rate swap activity associated with bond transactions. Therefore, based on past history for costs associated with prior bond financings, interest rate swap transactions, and maintenance of Metropolitan’s variable rate debt program, staff estimates that over the next two years Metropolitan will need approximately \$2.20 million appropriated for such expenditures.

Appropriation No. 15475 for Transaction Costs

The following table provides a breakdown of estimated costs for Appropriation No. 15475:

Rating Agency Fees	\$ 900,000
Financial/Swap Advisory Fees	575,000
Legal Counsel Fees	525,000
Printing	120,000
Other Fees / Contingency	<u>80,000</u>
Total	\$2,200,000

The appropriation would expire on May 31, 2014, 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. Costs 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 Appropriation No. 15475 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 May 31, 2014.

Fiscal Impact: Costs of issuance are generally paid from the bond proceeds and will be incurred for bond and interest rate swap transactions, and the ongoing administration of Metropolitan's variable rate debt program. The costs are included in the overall cost of each financing transaction.

Business Analysis: Funding of the ongoing CIP and costs related to managing the portfolio outstanding debt is required.

Option #2

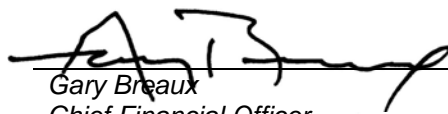
Do not authorize Appropriation No. 15475.

Fiscal Impact: Metropolitan's ability to access the capital markets to provide funding for the capital program would be limited, and Metropolitan's ability to manage its variable rate debt program would be constrained.

Business Analysis: Capital market access would not be possible thereby limiting Metropolitan's ability to fund the capital program and address the ongoing requirements of Metropolitan's variable rate debt program.

Staff Recommendation


Option #1



Gary Breaux
Chief Financial Officer

4/16/2012

Date



Jeffrey Kightlinger
General Manager

4/23/2012

Date

Ref# cfo12617775