



- Board of Directors  
*Finance and Insurance Committee*

7/14/2015 Board Meeting

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**8-4**

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## **Subject**

Adopt a resolution authorizing the reimbursement with bond proceeds of the costs of Capital Investment Plan Projects funded from the General Fund and Replacement and Refurbishment Fund up to \$300 million

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## **Executive Summary**

The Resolution of Reimbursement would authorize the use of tax-exempt bond proceeds or other forms of indebtedness to reimburse capital expenditures for projects funded from the General Fund and the Replacement and Refurbishment (R&R) Fund. The availability of debt funding sources for capital projects initially paid or to be paid by the General Fund and R&R Fund would provide Metropolitan with additional financial flexibility in fiscal year (FY) 2015/16 by funding all or a portion of planned Capital Investment Plan (CIP) expenditures.

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## **Details**

The Biennial Budget for fiscal years 2014/15 and 2015/16, adopted by the Board on April 15, 2014, included funding all capital expenditures of the CIP from the General Fund and the R&R Fund. As of May 31, 2015, \$194 million in capital projects were funded from the General Fund, with approximately \$10 million in additional funding expected by June 30, 2015. Fiscal year 2015/16 CIP expenditures are budgeted to be \$268 million.

By adopting the Resolution of Reimbursement, Metropolitan would be able to reimburse certain capital expenditures with tax-exempt bond proceeds up to \$300 million. In accordance with Internal Revenue Service (IRS) regulations, Metropolitan would be required to declare its "official intent" to reimburse a capital expenditure no later than 60 days after the payment of the original expenditure. The IRS regulations for the applicable time periods are detailed, but generally, reimbursements can be received for General Fund and R&R funded capital projects three years after the date on which each capital expenditure was paid.

While Metropolitan has been planning to fund all of FY 2015/16 CIP projects from the General Fund and R&R Fund, ongoing drought conditions present significant uncertainties regarding future financial operations and financial reserve balances. As reported to the Water Planning and Stewardship Committee at its meeting of May 26, 2015, the Water Rate Stabilization Fund and Revenue Remainder Fund is projected to end FY 2014/15 with a combined total of approximately \$480 million. However, expenditures for water management activities such as replenishing storage and funding transfer and exchange programs could significantly draw down financial reserves in the near future. In addition, water sales could be below budgeted levels. Therefore, the ability for the Board to use tax-exempt bond proceeds to reimburse Metropolitan for capital expenditures paid or to be paid by the General Fund and R&R Fund will provide the Board with additional financial flexibility to meet these challenges in FY 2015/16.

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## **Policy**

Metropolitan Water District Act Section 61: Ordinances, Resolutions and Orders

Metropolitan Administrative Code Section 5200(b): Funds Established

## California Environmental Quality Act (CEQA)

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CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves 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 action is not defined as a project and is 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

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### Option #1

Adopt the CEQA determination that the proposed action is not defined as a project and is not subject to CEQA, and

Adopt the Resolution of Reimbursement as contained in Attachment 1.

**Fiscal Impact:** Approval of Option #1 would allow Metropolitan to fund its capital needs in FY 2015/16 with debt proceeds, rather than funding such capital projects from revenues and the General and R&R Funds, and facilitate the funding of other activities with available funds. However, debt service costs would increase if bonds were issued to reimburse capital projects. Annual debt service costs for a \$300 million bond issue could range from \$2 million to \$3 million for variable rate debt, and approximately \$17 million for a fixed rate bond issue.

**Business Analysis:** Option #1 would provide Metropolitan the ability to reimburse General Fund and R&R Fund funded capital expenses with tax-exempt debt proceeds. Such reimbursed funds would replenish funds that then may be used for any lawful purpose, including funding for water management programs and water supply replenishment.

### Option #2

Do not adopt the Resolution of Reimbursement as contained in [Attachment 1](#).

**Fiscal Impact:** Approval of Option #2 would result in a reduction in Metropolitan's financial flexibility during FY 2015/16. There would, however, be no increase in debt service costs, as all capital projects would be funded from revenues.

**Business Analysis:** Option #2 would limit Metropolitan's financial flexibility in FY 2015/16, as Metropolitan could not reimburse revenue-funded capital projects from debt proceeds.

## Staff Recommendation

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Option #1

  
 Gary Breaux  
 Chief Financial Officer

6/24/2015

Date

  
 Jeffrey Kightlinger  
 General Manager

6/27/2015

Date

## Attachment 1 – Resolution of Reimbursement

THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA

RESOLUTION \_\_\_\_

RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
PERTAINING TO THE REIMBURSEMENT FROM BOND PROCEEDS OF CAPITAL  
EXPENDITURES FOR CAPITAL INVESTMENT PLAN PROJECTS

WHEREAS, The Metropolitan Water District of Southern California (“Metropolitan”) desires and expects to finance certain construction costs relating to its fiscal year 2015/16 Capital Investment Plan Projects (“Projects”);

WHEREAS, Metropolitan expects to issue up to \$300 million in debt to finance the Projects or portions of the Projects with the sale of obligations, the interest upon which is excluded from gross income for federal income tax purposes (the “Debt”);

WHEREAS, Metropolitan expects to expend (or to have expended) moneys (other than moneys derived from the issuance of bonds) on expenditures relating to the costs of the Projects prior to the issuance of the Debt, which expenditures will be properly chargeable to a capital account under general federal income tax principles;

WHEREAS, Metropolitan reasonably expects to reimburse certain of such capital expenditures with the proceeds of the Debt;

WHEREAS, Metropolitan expects that the maximum principal amount of Debt which will be issued to pay for the costs of the Projects (and related issuance costs) will not exceed \$300 million;

WHEREAS, at the time of the reimbursement for the Projects, Metropolitan will evidence such reimbursement in a writing which identifies the allocation of the proceeds of the Debt to Metropolitan for the purpose of reimbursing Metropolitan for the capital expenditures made with respect to such Projects prior to the issuance of the Debt;

WHEREAS, Metropolitan expects to make each of the reimbursement allocations no later than eighteen (18) months after the later of (i) the date on which the earliest original expenditure for the relevant Project is paid or (ii) the date on which such Projects are placed in service (or abandoned), but in no event later than three (3) years after the date on which the earliest original expenditure for the relevant Project is paid;

WHEREAS, Metropolitan will not, within one (1) year of any reimbursement allocation, use the proceeds of the Debt received in the reimbursement allocation in a manner that will result in the creation of replacement proceeds of the Debt or another issue (e.g., Metropolitan will not pledge or use the proceeds received for the payment of debt service on the Debt or another issue, except that the proceeds of the Debt can be deposited in a bona fide debt service fund); and

WHEREAS, this Resolution is intended to be a "declaration of official intent" in accordance with Section 1.150-2 of the U.S Treasury Regulations.

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California DOES HEREBY RESOLVE, DETERMINE AND ORDER as follows:

**Section 1.** That in accordance with Section 1.150-2 of the U.S. Treasury Regulations, Metropolitan hereby declares its intention to issue Debt in a principal amount not to exceed \$300 million, the proceeds of which will be used to pay for the costs of the Projects (and related issuance costs), including the reimbursement to Metropolitan for certain capital expenditures relating to the Projects made prior to the issuance of the Debt.

**Section 2.** This declaration of intent does not bind Metropolitan to make any expenditure, nor incur any indebtedness, or proceed with the Projects.

**I HEREBY CERTIFY**, that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held July 14, 2015.

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Secretary of the Board of Directors  
of The Metropolitan Water District  
of Southern California