



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

6/14/2016 Board Meeting

8-3

Subject

Adopt Second Supplemental Subordinate Resolution to the Master Subordinate Resolution authorizing the issuance of up to \$175 million of Subordinate Water Revenue Bonds, 2016 Authorization and provide for transaction documents

Executive Summary

The Second Supplemental Subordinate Resolution to the Master Subordinate Resolution in [Attachment 1](#) would authorize the issuance of up to \$175 million of Subordinate Water Revenue Bonds, 2016 Authorization and provide for transaction documents. Proceeds would fund the purchase of land from Delta Wetlands Properties in Contra Costa, San Joaquin and Solano Counties. Since the land purchase is scheduled to close on June 8, 2016, Metropolitan will use its unrestricted reserves to purchase the properties and the proposed financing will reimburse reserves for the land purchase.

Details

The Second Supplemental Subordinate Resolution to the Master Subordinate Resolution (the Second Supplemental Subordinate Resolution) would authorize the issuance of up to \$175 million of Subordinate Water Revenue Bonds, 2016 Authorization ("Bonds"), provide the terms and conditions for the sale and issuance of the Bonds, and provide for transaction documents. Transaction documents include trust agreements, bond holder agreements, bond purchase contracts and other agreements between Metropolitan and a financial institution providing for purchase or liquidity support of the Bonds. The proceeds from the sale of the Bonds would fund the purchase of land from Delta Wetlands Properties in Contra Costa, San Joaquin and Solano Counties. This purchase was approved by the Board on March 8, 2016. Since the land purchase is scheduled to close on June 8, 2016, Metropolitan will use its unrestricted reserves to purchase the properties and the proposed financing would reimburse reserves for the land purchase.

The proposed financing would be the first debt issued under the Master Subordinate Resolution adopted by the Board on March 8, 2016. On that same date, the Board also adopted the First Supplemental Subordinate Resolution, which authorizes issuance of subordinate water revenue refunding bonds, not at issue here.

The Bonds proposed under the Second Supplemental Subordinate Resolution, would be issued under the authority of Ordinance No. 149, adopted by the Board on October 13, 2015. The Board determined, in Ordinance No. 149, that the interests of Metropolitan require the use of revenue bonds up to an aggregate amount of \$500 million to fund a portion of capital expenditures. On November 10, 2015, the Board authorized the Twenty-First Supplemental Resolution to Metropolitan's Senior Debt Resolution for the issuance of up to \$250 million of Water Revenue Bonds, of which \$208 million was issued on December 17, 2015. The proposed \$175 million financing falls within the remaining \$292 million balance under Ordinance No. 149.

Consistent with past board practice, the Second Supplemental Subordinate Resolution establishes an Ad Hoc Committee, generally comprised of the Chairman of the Board, the Chairman of the Finance and Insurance Committee, and the General Manager, to approve the aggregate principal amount and the terms and conditions of

each series of the bonds and any related transaction documents, including any fees, charges, interest rates and cost of issuance.

If approved, Metropolitan would issue up to \$175 million of Subordinate Water Revenue Bonds, 2016 Authorization, with a term of up to three years, to be purchased by Bank of America Merrill Lynch (“BAML”). The interest rate on the Bonds will equal the One Month, London Interbank Offered Rate (“LIBOR”), plus a basis point spread. The financing would be done on a taxable basis as much of the Delta Wetlands land is currently being leased to private entities. This “private-use” component precludes the use of tax-exempt financing.

The financing would not require a public sale of securities or a bond rating. In addition, the legal provisions of the BAML financing are expected to be similar to a transaction Metropolitan recently completed with US Bank, National Association. Therefore, the proposed financing should have lower transaction costs and a more streamlined approval process for the financing documents. The proposed financing is expected to close by June 30, 2016.

Policy

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

Metropolitan Water District Act Section 123: Borrowing, Limitation

Metropolitan Water District Act Sections 235-239.4, Chapter 1.6 of Part 5: Revenue Bonds

Metropolitan Board Ordinance No. 126, dated March 12, 1974: Revenue Bond Election

Metropolitan Board Ordinance No. 149, dated October 13, 2015: Determining that the Interests of the District Require the Use of Revenue Bonds in the Aggregate Principal Amount of \$500,000,000 to Fund a Portion of Capital Investment Plan Expenditures

Metropolitan Board Resolution 9199, as amended and supplemented (Master Subordinate Resolution)

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as 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 defined as a project 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 defined as a project and therefore 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

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 Second Supplemental Subordinate Resolution to the Master Subordinate Resolution authorizing the issuance of up to \$175 million of Subordinate Water Revenue Bonds, 2016 Authorization, providing the terms and conditions for the sale and issuance of said Subordinate Water Revenue Bonds and providing for transaction documents, as contained in [Attachment 1](#).

Fiscal Impact: The proposed financing will result in an increase in debt service payments of approximately \$2 million, annually, for the issuance of \$175 million of Subordinate Water Revenue Bonds. The cost of issuance is estimated to be \$135,000.

Business Analysis: The approval of the proposed financing will allow for a cost effective and flexible means of financing the Delta Wetlands land purchase and allow for the reimbursement of unrestricted reserves used for the initial land purchase.

Option # 2

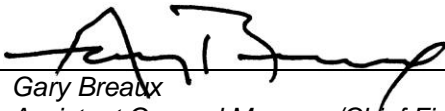
Do not authorize a new money debt issuance transaction.

Fiscal Impact: Metropolitan will need to use less cost-effective alternatives for funding the Delta Wetlands land purchase, or operate with lower unrestricted financial reserves.

Business Analysis: Alternative financing options may have higher costs than the proposed financing.

Staff Recommendation

Option #1



Gary Breaux
Assistant General Manager/Chief Financial Officer

5/31/2016

Date



Jeffrey Kightlinger
General Manager

6/1/2016

Date

Attachment 1 – Resolution Authorizing the Issuance of Up to \$175,000,000 of Subordinate Water Revenue Bonds and Providing the Terms and Conditions for the Sale and Issuance of Said Subordinate Water Revenue Bonds and Providing for Transaction Documents (Second Supplemental Subordinate Resolution)

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

RESOLUTION ____

**RESOLUTION AUTHORIZING THE ISSUANCE OF UP TO \$175,000,000
OF SUBORDINATE WATER REVENUE BONDS AND PROVIDING
THE TERMS AND CONDITIONS FOR THE SALE AND ISSUANCE
OF SAID SUBORDINATE WATER REVENUE BONDS
AND PROVIDING FOR TRANSACTION DOCUMENTS
(SECOND SUPPLEMENTAL SUBORDINATE RESOLUTION)**

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**THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA**

RESOLUTION ____

**RESOLUTION AUTHORIZING THE ISSUANCE OF UP TO \$175,000,000
OF SUBORDINATE WATER REVENUE BONDS AND PROVIDING
THE TERMS AND CONDITIONS FOR THE SALE AND ISSUANCE
OF SAID SUBORDINATE WATER REVENUE BONDS
AND PROVIDING FOR TRANSACTION DOCUMENTS**

(SECOND SUPPLEMENTAL SUBORDINATE RESOLUTION)

WHEREAS, pursuant to the Act (as defined below), the Board of Directors of the Metropolitan Water District of Southern California (the "District") may authorize the issuance of revenue bonds for any purpose permitted under the Act;

WHEREAS, pursuant to Resolution 9199 adopted by the District on March 8, 2016, as amended and supplemented (the "Master Subordinate Resolution"), the District has authorized the issuance of The Metropolitan Water District of Southern California Subordinate Water Revenue Bonds (the "Bonds") by adoption of supplemental resolutions from time to time, with the payment of the principal of, interest on, and any redemption premiums thereon being secured by and payable solely from the Net Operating Revenues (as defined in the Master Subordinate Resolution) of the District;

WHEREAS, pursuant to Ordinance 149 adopted by the District on October 13, 2015, the District has determined that the interests of the District require the use of revenue bonds in the aggregate principal amount of \$500,000,000 to fund a portion of the District's capital expenditures, the cost of which is too great to be paid out of the ordinary annual income and revenue of the District;

WHEREAS, the interests of the District require the District to proceed under the Master Subordinate Resolution and Ordinance 149 and issue and sell from time to time Subordinate Water Revenue Bonds, 2016 Authorization (the "2016 Authorization Bonds") in an aggregate principal amount not to exceed \$175,000,000 secured by and payable from the Net Operating Revenues of the District for the purpose of, among other things, paying all or a portion of the

costs of acquisition, construction and improvements to the Water System (as defined in the Master Subordinate Resolution); and

WHEREAS, the District desires to adopt this Second Supplemental Subordinate Resolution to the Master Subordinate Resolution for the purposes of authorizing the issuance of the 2016 Authorization Bonds (the “Second Supplemental Subordinate Resolution”);

NOW, THEREFORE, the Board of Directors of the District, DOES HEREBY RESOLVE, DETERMINE AND ORDER as follows:

ARTICLE I

AUTHORIZATION OF 2016 AUTHORIZATION BONDS; DEFINITIONS

SECTION 1.01 Definitions. All terms which are defined in Section 1.01 of the Master Subordinate Resolution or in the Act shall, unless otherwise defined herein, have the same meanings, respectively, in this Second Supplemental Subordinate Resolution. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Second Supplemental Subordinate Resolution and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and the plural forms of any of the terms herein defined.

“2016 Authorization Bonds” means the Bonds described in Section 2.01 hereof, authorized and issued pursuant to the Master Subordinate Resolution, as supplemented by this Second Supplemental Subordinate Resolution.

“Act” means the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented by applicable provisions of the Government Code of the State of California, including by Chapter 3 (Section 53400 et seq.) and Chapter 6 (Section 54300 et seq.) of Part 1 of Division 2 of Title 5.

“Ad Hoc Committee” has the meaning set forth in Section 5.01 hereof.

“Bank Documents” means any continuing covenant agreement, bondholder agreement or other agreement between the District and a commercial bank or other financial institution providing for the purchase by such commercial bank or financial institution of such Series or for the credit or liquidity support by such commercial bank or financial institution of such Series.

“Code” means the Internal Revenue Code of 1986, as amended.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District and related to the authorization, execution, sale and delivery of a Series of 2016 Authorization Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any agent including any Fiscal Agent, Paying Agent, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of the

2016 Authorization Bonds of such Series, and any other cost, charge or fee in connection with the delivery of the 2016 Authorization Bonds of such Series.

“Fiscal Agent” means the fiscal agent appointed pursuant to Section 4.01 hereof.

“Master Subordinate Resolution” means Resolution 9199 adopted by the District on March 8, 2016, as from time to time amended and supplemented.

“Paying Agent” means a paying agent appointed pursuant to Section 4.01 of this Second Supplemental Subordinate Resolution.

“Sales Documents” means, in the case of a negotiated sale, any bond purchase contract or other agreement or agreements providing for the purchase of one or more Series of 2016 Authorization Bonds between the District and the purchaser or purchasers thereof.

“Second Supplemental Subordinate Resolution” means this resolution of the District, and any amendments, modifications or supplements hereto.

“Transaction Documents” means, with respect to any Series of 2016 Authorization Bonds, any related Trust Agreement, Bank Documents and Sales Documents.

“Trust Agreement” means the trust agreement, paying agent agreement or such other instrument or instruments executed and delivered in connection with the issuance of a Series of 2016 Authorization Bonds and which sets forth the terms and conditions of such Series of 2016 Authorization Bonds and which appoints any Paying Agent with respect to such Series of 2016 Authorization Bonds.

ARTICLE II

THE 2016 AUTHORIZATION BONDS

SECTION 2.01 Authorization. Bonds are hereby authorized to be issued pursuant to the Act and the Master Subordinate Resolution, which Bonds are designated as “The Metropolitan Water District of Southern California Subordinate Water Revenue Bonds, 2016 Authorization.” The 2016 Authorization Bonds may be issued in one or more Series at one time or from time to time in accordance with the terms hereof, and each Series of 2016 Authorization Bonds shall bear such additional designation as may be ascribed thereto in the Transaction Documents for such Series. The total aggregate principal amount of all Series of 2016 Authorization Bonds shall not exceed \$175,000,000.

SECTION 2.02 Terms of the 2016 Authorization Bonds.

(A) Terms. Each Series of 2016 Authorization Bonds shall be Current Interest Bonds as set forth in the Master Subordinate Resolution and shall be issued in the aggregate principal amount and be dated such date as shall be specified in the Transaction Documents for such Series. Each Series of 2016 Authorization Bonds shall mature on the date or dates and in the principal amount or amounts set forth in such Transaction Documents for such Series. Each Series of 2016 Authorization Bonds shall be delivered in fully registered form in principal

amounts in Authorized Denominations, and shall be numbered in such manner as set forth in the Transaction Documents. The 2016 Authorization Bonds of each Series shall be issued and delivered in the form and manner provided in the applicable Transaction Documents.

(B) Sources of Payment. The payment of the principal and interest and any redemption premiums on the 2016 Authorization Bonds of each Series shall be secured by and payable solely from Net Operating Revenues and other funds pledged under the Master Subordinate Resolution and the Second Supplemental Subordinate Resolution.

SECTION 2.03 Interest. The 2016 Authorization Bonds of any Series shall bear interest at the rates and in the manner set forth in the Transaction Documents for such Series, and shall be payable on the dates set forth in such Transaction Documents; provided, however, that the 2016 Authorization Bonds shall not bear interest at a rate in excess of twelve percent (12%) per annum.

SECTION 2.04 Place of Payment. The principal of the 2016 Authorization Bonds of each Series shall be payable in lawful money of the United States of America at those places and in the manner provided in the applicable Transaction Documents.

SECTION 2.05 Redemption. The 2016 Authorization Bonds of each Series shall be subject to optional and mandatory redemption as provided in the applicable Transaction Documents.

ARTICLE III

APPLICATION OF BOND PROCEEDS; ESTABLISHMENT OF FUNDS

SECTION 3.01 Application of Proceeds of 2016 Authorization Bonds. The proceeds of the sale of a Series of 2016 Authorization Bonds and such other moneys as are available and necessary to accomplish the purposes of this Second Supplemental Subordinate Resolution from time to time shall be deposited with the Treasurer and shall be held in trust and shall be set aside by the Treasurer as provided in the applicable Transaction Documents.

SECTION 3.02 Establishment and Application of Funds. The District shall establish, and the Treasurer shall maintain and hold in trust, such funds and accounts as specified in the Transaction Documents.

ARTICLE IV

FISCAL AGENT AND PAYING AGENT

SECTION 4.01 Fiscal Agent and Paying Agent. The Treasurer of the District is hereby appointed as Fiscal Agent with respect to the 2016 Authorization Bonds. An Authorized Representative may appoint a Paying Agent, which shall have such duties (including those duties of the Fiscal Agent) as shall be set forth in the respective Transaction Documents.

ARTICLE V

SALE OF 2016 AUTHORIZATION BONDS; APPROVAL OF TRANSACTION DOCUMENTS

SECTION 5.01 Ad Hoc Committee. The Chairman of the Board, or in the event of a vacancy, the Acting Chairman of the Board, the Chairman of the Finance and Insurance Committee of the Board (or in the event the Finance and Insurance Committee is renamed, dissolved, or reorganized, such other committee of the Board which shall have substantially all of the duties of the Finance and Insurance Committee prior to such renaming, dissolution, or reorganization), or in the event of a vacancy, the Vice Chairman or Acting Chairman of the Finance and Insurance Committee of the Board (or in the event the Finance and Insurance Committee is renamed, dissolved, or reorganized, such other committee of the Board which shall have substantially all of the duties of the Finance and Insurance Committee prior to such renaming, dissolution, or reorganization), and the General Manager or his or her designee, or in the event of a vacancy, the Acting General Manager or his or her designee, acting jointly, are hereby constituted an ad hoc committee (the "Ad Hoc Committee").

SECTION 5.02 Approval of Transaction Documents. The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the aggregate principal amount, terms and conditions of each Series of 2016 Authorization Bonds, and the terms and conditions of each Transaction Document related to such Series of 2016 Authorization Bonds, as the members of the Ad Hoc Committee shall agree upon in their sole discretion as being in the best interests of the District, subject only to the provisions of the Act and of this Second Supplemental Subordinate Resolution, and shall be so empowered solely to implement the fundamental policies established by this Second Supplemental Subordinate Resolution in a manner that is most advantageous to the District. The Ad Hoc Committee or its designee is authorized and directed to approve on behalf of the District the payment of any Costs of Issuance related to the issuance of any Series of 2016 Authorization Bonds.

Such aggregate principal amount, terms and conditions of each Series of 2016 Authorization Bonds and the terms and conditions of their sale shall be set forth in the Transaction Documents. Such terms and conditions as so set forth, together with the other terms and conditions of each Series of 2016 Authorization Bonds set forth in this Second Supplemental Subordinate Resolution, shall, upon execution and delivery of the Transaction Documents with respect to such Series by the Ad Hoc Committee, or its designee, on behalf of the District, be all the terms and conditions of each Series of 2016 Authorization Bonds, as if all such terms and conditions were fully set forth in this Second Supplemental Subordinate Resolution.

The provisions of the Transaction Documents pertaining to the terms of each Series of 2016 Authorization Bonds are hereby incorporated by reference into this Second Supplemental Subordinate Resolution with the same force and effect as if set forth herein.

The Ad Hoc Committee shall file a certificate concerning its actions pursuant to this Second Supplemental Subordinate Resolution with the District together with a copy of the Transaction Documents for each Series of 2016 Authorization Bonds. The Controller of the District shall maintain true and correct copies of such documents in the files of the District.

SECTION 5.03 Further Action. The Chairman of the Board, the General Manager and the Assistant General Manager/Chief Financial Officer of the District shall be and each of them is hereby authorized, empowered and directed to execute such other documents and agreements in addition to those enumerated herein and take such other actions as they deem necessary or advisable in order to carry out and perform the purposes of this Second Supplemental Subordinate Resolution.

ARTICLE VI

MISCELLANEOUS

SECTION 6.01 2016 Authorization Bonds Subject to Master Subordinate Resolution. This Second Supplemental Subordinate Resolution is adopted in accordance with the provisions of the Master Subordinate Resolution. The Master Subordinate Resolution, as supplemented by this Second Supplemental Subordinate Resolution, is in all respects ratified and approved. Except as expressly provided in this Second Supplemental Subordinate Resolution, every term and condition contained in the Master Subordinate Resolution shall apply to this Second Supplemental Subordinate Resolution and to each Series of the 2016 Authorization Bonds with the same force and effect as if it were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this Second Supplemental Subordinate Resolution.

SECTION 6.02 Severability of Invalid Provisions. If any one or more of the provisions contained in this Second Supplemental Subordinate Resolution or in the 2016 Authorization Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Second Supplemental Subordinate Resolution and such invalidity, illegality or unenforceability shall not affect any other provision of this Second Supplemental Subordinate Resolution, and this Second Supplemental Subordinate Resolution shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein. The District hereby declares that it would have adopted this Second Supplemental Subordinate Resolution and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the 2016 Authorization Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Second Supplemental Subordinate Resolution may be held illegal, invalid or unenforceable.

SECTION 6.03 Article and Section Headings and References; Interpretation. The headings or titles of the several Articles and Sections hereof shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Second Supplemental Subordinate Resolution.

All references herein to "Article," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Second Supplemental Subordinate Resolution; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Second Supplemental Subordinate Resolution as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

SECTION 6.04 Governing Law. This Second Supplemental Subordinate Resolution shall be construed and governed in accordance with the laws of the State of California.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the affirmative votes of members representing more than fifty percent (50%) of the total number of votes of all members of the Board of Directors of The Metropolitan Water District of Southern California at its meeting held on June 14, 2016.

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