



● **Board of Directors**

5/9/2017 Board Meeting

8-1

Subject

Adopt CEQA determination and approve the introduction by title only of an Ordinance Determining That The Interests Of The District Require The Use Of Revenue Bonds In The Aggregate Principal Amount of \$400,000,000 To Finance A Portion Of Capital Expenditures

Executive Summary

Introduction of the Ordinance Determining That The Interests Of The District Require The Use of Revenue Bonds In the Aggregate Principal Amount of \$400,000,000 To Finance A Portion Of Capital Expenditures (Ordinance) will allow the Board to consider the adoption of the Ordinance at the Board's June meeting. In May, the Board need only vote on whether to introduce the proposed Ordinance by title or whether to introduce it by full reading.

Details

In 1974, the voters in Metropolitan's service area approved the use of long-term revenue bonds as an alternative to pay-as-you-go financing. Revenue bonds include bonds, notes, loans, or other evidences of indebtedness. Pursuant to the approval of the voters and the Metropolitan Water District Act (MWD Act), the Board may authorize issuance of revenue bonds upon the adoption of an ordinance finding the interests of the district require use of the revenue bonds for the purposes set forth in Section 237 of the MWD Act, which include financing a portion of capital expenditures, the cost of which will be too great to be paid out of the ordinary annual income and revenue of the district. In June, staff will provide for board adoption the attached Ordinance. The adoption of the Ordinance is a preliminary step to subsequent and separate authorization of revenue bonds in an aggregate principal amount of up to \$400 million to allow Metropolitan to finance a portion of capital expenditures and preserve financial flexibility.

The MWD Act requires ordinances to be introduced on a day prior to the time of the Board's adoption of the ordinance. The MWD Act does not specify the method of introduction of ordinances. General law cities typically require introduction by a reading of the full text, unless the full reading is waived, which allows introduction by title only. Following a process that is similar to a general law city, the proposed Ordinance will be introduced at the May 9, 2017 Board meeting by title only or by a full reading, as determined by the Board through the action in this letter. After the May introduction, staff will present the proposed Ordinance for the Board's consideration and adoption at the Board's regular June meeting. The analysis supporting that proposal will be presented to the Board at that time. Adoption of the Ordinance will not authorize bond issuance. Separate board approval would be required for any bond issuance under this Ordinance.

Sequence of board actions:

1. Vote whether to introduce by title only the Ordinance, followed by a reading of either: (a) the title of the Ordinance; or (b) the full text of the Ordinance, as determined by the Board's vote. (May – Board only.)

2. Vote whether the interests of the district require use of revenue bonds in the amount not to exceed \$400 million to finance a portion of capital expenditures. (Scheduled for June – Finance and Insurance Committee and Board.)
3. Adopt bond resolutions, up to an aggregate principal amount of \$400 million, to authorize future bond issuance. Follows adoption of Ordinance. (\$80 million of revenue bonds are scheduled for consideration after the adoption of the Ordinance in June – Finance and Insurance Committee and Board.)

Attachment 1 provides to the Board the full text of the proposed Ordinance. The action required by the Board at this time is a vote approving the introduction of the proposed Ordinance by title only at the May board meeting or alternatively, requiring a full reading, in which case the entirety of the Ordinance will be read at the May board meeting.

Policy

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

Metropolitan Water District Act Section 63: Roll Call on Ordinances

Metropolitan Water District Act Section 64: Ordinances; Introduction; Adoption

Metropolitan Water District Act Section 237: Revenue Bond Purposes

California Environmental Quality Act (CEQA)

CEQA determinations for Options #1 and #2:

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 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.

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

Approve the introduction, by title only, of the proposed Ordinance Of The Board Of Directors Of The Metropolitan Water District Of Southern California Determining That The Interests Of The District Require The Use Of Revenue Bonds In The Aggregate Principal Amount of \$400,000,000 To Finance A Portion Of Capital Expenditures.

Fiscal Impact: None

Option #2

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

Introduce by full reading the proposed Ordinance Of The Board Of Directors Of The Metropolitan Water District Of Southern California Determining That The Interests of The District Require The Use Of Revenue Bonds In The Aggregate Principal Amount of \$400,000,000 To Finance A Portion Of Capital Expenditures.

Fiscal Impact: None

Staff Recommendation

Option #1



Gary Breaux
Chief Financial Officer/
Assistant General Manager

4/28/2017
Date



Jeffrey Kightlinger
General Manager

5/2/2017
Date

Attachment 1 – Ordinance Determining That The Interests Of The District Require The Use Of Revenue Bonds In The Aggregate Principal Amount Of \$400,000,000 To Finance A Portion Of Capital Expenditures

Ref# cfo12647353

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

ORDINANCE 150

ORDINANCE OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
DETERMINING THAT THE INTERESTS OF THE DISTRICT REQUIRE THE USE OF
REVENUE BONDS IN THE AGGREGATE PRINCIPAL AMOUNT OF \$400,000,000 TO
FINANCE A PORTION OF CAPITAL EXPENDITURES

The Board of Directors of the Metropolitan Water District of Southern California (the "Board") hereby finds that:

1. Pursuant to Chapter 1.6 of Part 5 of the Metropolitan Water District Act (California Statutes 1969, Chapter 209, as amended, hereinafter sometimes referred to as the "Act"), the Board of The Metropolitan Water District of Southern California (the "District"), on March 12, 1974, adopted Ordinance No. 126, calling a special election to be held within the District on June 4, 1974, for the purpose of submitting to the qualified voters of said District the following proposition:

To permit use of long-term bonds backed by water revenues as an alternative to pay-as-you-go financing, shall the Board of Directors of the Metropolitan Water District of Southern California be authorized to issue and sell revenue bonds under Chapter 1.6, Part 5, Metropolitan Water District Act?

2. Said election was duly and regularly held and said proposition received the affirmative vote and assent of a majority of all of the qualified voters of the District voting on said proposition, and therefore the Board is authorized to issue and sell revenue bonds under Chapter 1.6 of Part 5 of the Act.

3. Revenue bonds means bonds, notes, loans or other obligations or evidences of indebtedness, as provided for in the Act and California Government Code.

4. The ability to ensure a reliable supply of high quality water for the District's 26 member agencies depends upon the District's ongoing ability to fund operations and maintenance, maintain and augment local and imported water supplies, fund replacements and refurbish existing infrastructure, and invest in system improvements.

5. Ordinance 149 was adopted by the Board on October 13, 2015, finding that the interests of Metropolitan require the use of revenue bonds in the aggregate principal amount of \$500,000,000 to fund a portion of the District's capital investment plan expenditures, the cost of which is too great to be paid out of the ordinary annual income and revenue of the District.

6. Of the \$500,000,000 aggregate principal amount of revenue bonds authorized under Ordinance 149, all but \$36.7 million have been issued and the remaining \$36.7 million is anticipated to be issued in fiscal year (FY) 2017/18 to finance a portion of the District's capital expenditures.

7. On April 12, 2016, the Board approved a biennial budget for FY 2016/17 and FY 2017/18, containing capital expenditures of \$200 million for each of FY 2016/17 and FY 2017/18, of which 40 percent is anticipated to be funded by debt proceeds.

8. On April 12, 2016, the Board approved a ten-year financial forecast for FY 2016/17 through FY 2025/26 (the "Ten-Year Financial Forecast"), forecasting annual capital expenditures of \$200 million for FYs 2016/17 through FY2020/21 and increasing to amounts of \$205.4 million to \$228.5 million in FYs 2021/22 through FY 2025/26, of which some portion of each year is anticipated to be funded by debt proceeds. The Ten-Year Financial Forecast provides an estimated forecast of future capital expenditures.

9. On April 12, 2016, the Board approved the use of \$240 million in operating revenues to partially fund the capital investment plan for FY 2016/17 and FY 2017/18. The capital investment plan identifies the capital priorities of the District for the fiscal years of the adopted budget.

10. In order to fully fund the capital investment plan adopted by the Board on April 12, 2016, \$80 million in revenue bonds would be required in FY 2017/18. To support the issuance of such \$80 million in revenue bonds, a capacity of \$36.7 million under Ordinance 149 is available. This Ordinance would provide support for the remaining balance of \$43.3 million.

11. Debt financing in future FYs of the Ten-Year Financial Forecast is assumed at amounts ranging from \$80 million to \$91.2 million per fiscal year.

12. The Board may, from time to time, approve capital expenditures other than or in addition to those contemplated by the capital investment plan at the time of the then current biennial budget.

13. From time to time, capital projects that have been undertaken are delayed, redesigned or deferred by the District for various reasons.

14. This Ordinance would support future board actions for debt financing over several years for capital expenditures approved by the Board as provided in the then current biennial budget, capital investment plan, ten-year financial forecast and as otherwise approved by the Board, which collectively would not exceed \$400,000,000.

15. Using debt to finance a portion of capital expenditures will provide the District with additional financial flexibility to fund capital expenditures that are necessary or convenient to carry out the purposes of the District while mitigating increases in water rates and charges.

16. This Ordinance was introduced at the regular meeting of the Board held on May 9, 2017.

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

The interests of The Metropolitan Water District of Southern California require the use of revenue bonds in the aggregate principal amount of \$400,000,000 to finance 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.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of an Ordinance adopted by a two-thirds (2/3) vote of the total vote of the Board of Directors of The Metropolitan Water District of Southern California at its meeting held on June 13, 2017.

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