



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

9/15/2020 Board Meeting

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7-1

**Subject**

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Adopt Ordinance No. 151 determining that the interests of Metropolitan require the use of revenue bonds in the aggregate principal amount of \$500 million to finance a portion of capital expenditures and waive the full reading of Ordinance; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

**Executive Summary**

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The Metropolitan Water District Act (MWD Act) authorizes Metropolitan to finance capital expenditures through use of revenue bonds, so long as the voters within Metropolitan's service area have previously approved such a financing mechanism, and so long as the Board, by a two-thirds vote, determines that the interests of the district require use of revenue bonds to finance capital expenditures, the costs of which will be too great to be paid out of the district's ordinary annual income and revenue (operating revenues). The voters approved such financing mechanism in 1974, and this letter proposes that the Board find that the current interests of Metropolitan require the issuance of revenue bonds to finance a portion of capital expenditures in the aggregate principal amount of \$500 million.

The \$500 million figure represents an estimate of revenue bond financing currently anticipated for approximately five fiscal years. As it has in the past, the Board may also approve other capital expenditures not anticipated in the adopted budget, the capital investment plan, or ten-year financial forecast, and capital expenditures may exceed the projections in an adopted biennial budget.

The Board's adoption of Ordinance No. 151 (**Attachment 1**) would allow Metropolitan to fund a portion of board-approved capital expenditures using up to an aggregate principal amount of \$500 million of revenue bonds. Funding a portion of capital expenditures with revenue bonds instead of exclusively using operating revenues is consistent with sound financial policy and provides flexibility to finance a portion of board-approved capital expenditures. Adopting Ordinance No. 151 is a prerequisite to the Board approving separate resolutions authorizing specific revenue bond issues of up to an aggregate principal amount of \$500 million. Ordinance No. 151 does not alone authorize any specific revenue bond issue.

**Details**

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The MWD Act provides that Metropolitan may borrow money, incur indebtedness and issue bonds or other such indebtedness. The MWD Act has two prerequisites for the issuance of revenue bonds, which include bonds, notes, loans or other evidences of indebtedness, to finance capital expenditures. In 1974, the voters in Metropolitan's service area approved the use of long-term revenue bonds as an alternative to funding capital expenditures exclusively with operating revenues, which fulfills the first requirement. The MWD Act also requires that the Board, by a two-thirds vote, authorize the issuance of revenue bonds by adopting 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, the cost of which will be too great to be paid out of operating revenues. Section 237 provides for the use of revenue bonds for financing the acquisition, construction, or completion of capital projects "necessary or convenient to carry out the objects or purposes of the district," including "any preliminary and incidental expenses." This letter proposes that the Board determine the interests of Metropolitan require the use of revenue bonds in the aggregate principal amount of \$500 million to finance a portion of capital expenditures, consistent

with the current biennial budget, projected capital expenditures for the current biennial period, and the approved capital expenditure forecasts.

Revenue bonds are required because the Board anticipated certain capital expenditures in the capital investment plan in the last adopted biennial budget, and the costs of planned capital expenditures exceed the amount to be generated from operating revenues in all years of the Ten-Year Financial Forecast. Without revenue bonds to fund capital expenditures, either rates must increase more than expected or less capital projects than are planned can go forward. The interests of Metropolitan require the issuance of revenue bonds, as contemplated in the board-adopted biennial budget for FY 2020/21 and 2021/22, to support funding of the projects in the capital investment plan and the average rate increases contemplated in the Ten-Year Financial Forecast.

#### Proposed Revenue Bond Authority

The \$500 million authority proposed in Ordinance No. 151 is based on an estimate of revenue bond financing anticipated for approximately five fiscal years.

Additionally, from time to time, when expenditures are necessary or convenient to carry out the purposes of the district, the Board may approve capital expenditures other than, or in addition to, those contemplated by the then current capital investment plan and may approve the issuance of revenue bonds to finance all or a portion of those capital expenditures. Ordinance No. 151 would provide the foundational authorization to allow for the Board's consideration of revenue bond issuances to finance any capital expenditures approved by the Board.

Bond financing, through the authorization of Ordinance No. 151, increases Metropolitan's flexibility to finance capital expenditures that carry out the purposes of the district by using revenue bond proceeds, rather than operating revenues or financial reserves. A balanced approach to financing future capital expenditures with both operating revenues and revenue bond proceeds will help mitigate increases in water rates, provide financial flexibility, and support sound revenue bond debt service and fixed charge coverage ratios. These factors will help Metropolitan maintain strong bond credit ratings, which provide tangible benefits to ratepayers in the form of reduced debt service cost. Strong credit ratings provide better access to capital markets, lower interest rates, and better terms on a broad range of debt products. Prudent financial management policies have resulted in bond ratings of AAA from Standard & Poor's, Aa1 from Moody's, and AA+ from Fitch Ratings for Metropolitan's senior lien revenue bonds.

The use of revenue bonds to fund capital assets is an accepted and appropriate method of financing capital projects authorized by the MWD Act and the Board. The Board has utilized this method of financing since voters approved the use of long-term revenue bonds as an alternative to pay-as-you-go financing in 1974. Metropolitan has a manageable debt load, which has declined in recent years, compared to overall assets. Without the ability to bond finance a portion of capital expenditures, Metropolitan may have to curtail funding capital projects, use additional reserves to fund capital costs, and/or increase water rates higher than projected in the Ten-Year Financial Forecast. The Board's adoption of Ordinance No. 151 is a prerequisite to the Board's future adoption of revenue bond resolutions authorizing the issuance of up to an aggregate principal amount of \$500 million of revenue bonds.

The MWD Act requires ordinances to be introduced on a day prior to the time of the Board's adoption of the ordinance. Ordinance No. 151 was introduced at the Board's regular meeting in August. General law cities typically require the reading of the full text of an ordinance, unless the full reading is waived. Following a process that is similar to a general law city, Option 1 waives the full reading of Ordinance No. 151.

#### **Policy**

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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 65: Ordinances – Effective Date

Metropolitan Water District Act Section 123: Borrowing, Limitation

Metropolitan Water District Act Section 237: Revenue Bond Purposes. The ordinance in this item is subject to a two-thirds vote requirement.

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 51962, dated April 14, 2020, the Board approved the FY 2020/21 and 2021/22 biennial budget, approved appropriations and funding of capital expenditures, and approved a Ten-Year Financial Forecast.

## **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 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). Finally, where it can be seen with certainty that there is no possibility that the proposed actions may have a significant impact on the environment, those actions are not subject to CEQA pursuant to Section 15061(b)(3) of the State CEQA Guidelines.

### **CEQA determination for Option #2:**

None required

## **Board Options**

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### **Option #1**

Adopt Ordinance No. 151, determining that the interests of Metropolitan require the use of revenue bonds in the aggregate principal amount of \$500 million to finance a portion of Metropolitan's capital expenditures and waive the full reading of Ordinance No. 151 (two-thirds vote of the Board). (**Attachment 1.**)

**Fiscal Impact:** Adoption of Option #1 will have no direct financial impact to Metropolitan but will allow the Board to take future actions to finance a portion of Metropolitan's capital expenditures with revenue bonds. Future board action is required for approval of future revenue bonds.

**Business Analysis:** Option #1 will enable the Board to authorize the issuance of revenue bonds, through future adoption of revenue bond resolutions, to finance future capital expenditures.

### **Option #2**

Do not adopt Ordinance No. 151.

**Fiscal Impact:** Option #2 may have a negative financial impact on Metropolitan by precluding the use of revenue bond proceeds to fund a portion of capital expenditures. The Board may not consider the approval of future revenue bond issues, without making the determinations in the proposed Ordinance. Metropolitan may have to use additional reserves to fund capital costs, and/or increase water rates higher than projected in the Ten-Year Financial Forecast.

**Business Analysis:** Option #2 will reduce Metropolitan's financial flexibility by precluding the use of revenue bond proceeds to finance future capital expenditures. Metropolitan may have to curtail funding capital projects.

**Staff Recommendation**

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Option #1

  
\_\_\_\_\_  
Katano Kasaine  
Assistant General Manager/  
Chief Financial Officer

8/31/2020  
Date

  
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Jeffrey Knightlinger  
General Manager

8/31/2020  
Date

**Attachment 1 - 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 \$500,000,000 To Finance A Portion Of Capital Expenditures**

Ref# cfo12678169

THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA

ORDINANCE 151

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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 \$500,000,000 TO  
FINANCE A PORTION OF CAPITAL EXPENDITURES

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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 150 was adopted by the Board on June 13, 2017, finding that the interests of Metropolitan require the use of revenue bonds in the aggregate principal amount of \$400,000,000 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 \$400,000,000 aggregate principal amount of revenue bonds authorized under Ordinance 150, all but \$85.045 million have been issued and the remaining \$85.045 million is anticipated to be issued in fiscal year (FY) 2020/21 to finance a portion of the District's capital expenditures.
7. On April 14, 2020, the Board approved a biennial budget for FY 2020/21 and FY 2021/22, containing capital expenditures of \$200 and \$225 million, respectively, of which 45 percent and 40 percent, respectively, is anticipated to be funded by debt proceeds.
8. On April 14, 2020, the Board approved a ten-year financial forecast for FY 2020/21 through FY 2029/30 (the "Ten-Year Financial Forecast"), forecasting annual capital expenditures of \$200 million for FY 2020/21, \$225 million for FY 2021/22 and increasing to \$300 million in FYs 2022/23 through FY 2029/30, 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 14, 2020, the Board approved the use of \$245 million in operating revenues to partially fund the capital investment plan for FY 2020/21 and FY 2021/22. 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 14, 2020, \$90 million in revenue bonds would be required in FY 2020/21. To support the issuance of such \$90 million in revenue bonds, a capacity of \$85.045 million under Ordinance 150 is available. This Ordinance would provide support for the remaining balance of approximately \$5 million.
11. Debt financing in future FYs of the Ten-Year Financial Forecast is assumed at amounts ranging from \$90 million to \$120 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 \$500,000,000.
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 August 18, 2020.

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 \$500,000,000 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 September 15, 2020.

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