



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

3/8/2016 Board Meeting

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**8-2**

**Subject**

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Adopt Short-Term Revenue Certificate Resolution authorizing the sale and issuance of up to \$400 million of short-term revenue certificates and providing for credit facilities and trust agreements

**Executive Summary**

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The proposed Short-Term Revenue Certificate Resolution in [Attachment 1](#) would authorize the issuance of up to \$400 million of short-term certificates (the "Certificates"). The Certificates would be issued to pay or finance any expenditure authorized by law including funding operation and maintenance expenditures, expenses Metropolitan is obligated by law to spend, replenishing financial reserves, financing the construction of any project authorized by the Board, and refunding or refinancing the Certificates and any other debt obligations. In addition, Certificate proceeds may fund the cost of issuance associated with the sale and marketing of the Certificates.

**Details**

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The proposed resolution will mark the first time Metropolitan has issued Certificates under the authorizing Metropolitan Water District Act provisions. The Certificates may fund any expenditure authorized by law. This is in contrast to Metropolitan's revenue bonds which are generally limited to expenditures related to construction projects. The Certificates will provide significant financial flexibility to fund costs that are considered operating and maintenance expenditures, such as for water purchases and associated power costs, and to fund the replenishment of financial reserves. In addition, the Certificates may fund the refinancing of any Metropolitan debt obligation and fund board-authorized construction projects.

The obligation to pay the Certificates' principal and interest expenditures, or debt service, would be parity obligations under Metropolitan's senior debt resolution and, therefore, will be equal to, and on parity with, the pledge to fund debt service on Metropolitan's revenue bonds. The term of the Certificates would not exceed one year from the issue date. Thereafter, the Certificates would be refunded by refunding Certificates, to allow for a multi-year financing of Certificate-funded expenditures.

Metropolitan anticipates that it will initially issue Certificates in conjunction with two credit facilities that are being negotiated with RBC Capital Markets, LLC (RBC) and U.S. Bank, NA, (together with RBC, the "Credit Facility Banks"). Each credit facility would allow for borrowing of up to \$200 million from each credit facility, for a total of \$400 million. It is expected that the borrowings would be realized through the sale of Certificates directly to the Credit Facility Banks. The Certificates would be issued on a tax-exempt or taxable basis, depending on the use of proceeds. For example, the funding of operation and maintenance expenditures or the replenishment of financial reserves would be a taxable purpose. The debt service on the Certificates would be variable rate obligations. The interest rate on the Certificates would be equal to the one-month London Interbank Offered Rate (LIBOR), plus a fixed basis point amount, for taxable proceeds; and 70 percent of one-month LIBOR, plus a fixed basis point amount, for tax-exempt proceeds. Until the Certificates are issued, there would be a separate fixed fee for any undrawn amounts under the credit facilities.

The Ad Hoc Committee, comprised of the Chairman of the Board, the Chairman of the Finance and Insurance Committee, and the General Manager, would approve the aggregate principal amount of each series of

Certificates and terms and conditions of each series of the Certificates, the credit facilities and any related trust agreements, including any fees, charges and interest rates.

## **Policy**

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

Metropolitan Water District Act Sections 296-299.5, Chapter 7 of Part 5: Short Term Revenue Certificates

Metropolitan Board Resolution 8329 (Senior Debt Resolution) as amended and supplemented

Metropolitan Board Resolution 8387 (Fourth Supplemental Resolution)

Metropolitan Board Resolution 9104 (Nineteenth Supplemental Resolution)

## **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).

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 Short-Term Certificates Resolution authorizing the sale and issuance from time to time of up to \$400 million of short-term revenue Certificates and providing for credit facilities and trust agreements, as contained in [Attachment 1](#).

**Fiscal Impact:** No fiscal impact related to the approval of the Short-Term Certificate Resolution. However, by approving the Resolution, Metropolitan may enter into credit facilities for up to \$400 million. If credit facility funds are used to replenish financial reserves, the interest earned on the invested reserve funds is expected to largely offset the credit facility fees. Other potential expenditures, such as for water purchases, would incur interest costs that currently approximate 1 percent, annually.

**Business Analysis:** The approval of the Short-Term Certificate Resolution would enable Metropolitan to have ready access to up to \$400 million for funding any lawful purpose. This would significantly increase financial flexibility to replenish financial reserves or to fund expenditures, such as for water purchases.

### **Option #2**

Do not adopt the Short-Term Certificates Resolution authorizing the issuance of up to \$400 million of short-term revenue Certificates.

**Fiscal Impact:** By not approving the Short-Term Certificate Resolution, Metropolitan would not be able to execute the proposed credit facilities. While difficult to quantify, Metropolitan would have to look for alternative funding sources that would likely be more expensive than the credit facilities.

**Business Analysis:** Metropolitan's financial flexibility would potentially be reduced to take advantage of market opportunities for funding expenditures, such as for water purchases, or the replenishing of financial reserves.

**Staff Recommendation**

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Option #1

  
\_\_\_\_\_  
Gary Breaux  
Assistant General Manager/Chief Financial Officer

2/23/2016  
Date

  
\_\_\_\_\_  
Jeffrey Kightlinger  
General Manager

2/24/2016  
Date

**Attachment 1 – Resolution of the Board of Directors of The Metropolitan Water District of Southern California Authorizing the Sale and Issuance From Time To Time of up to \$400 million of Short-Term Revenue Certificates and Providing for Credit Facilities and Trust Agreements (Short-Term Certificates Resolution)**

Ref# cfo12641811

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

**RESOLUTION \_\_\_\_**

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**RESOLUTION OF THE BOARD OF DIRECTORS OF THE  
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
AUTHORIZING THE SALE AND ISSUANCE FROM TIME TO TIME  
OF UP TO \$400 MILLION OF SHORT-TERM REVENUE CERTIFICATES  
AND PROVIDING FOR CREDIT FACILITIES AND TRUST AGREEMENTS  
(SHORT-TERM CERTIFICATES RESOLUTION)**

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**THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA**

**RESOLUTION \_\_\_\_\_**

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**RESOLUTION OF THE BOARD OF DIRECTORS OF THE  
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
AUTHORIZING THE SALE AND ISSUANCE FROM TIME TO TIME OF  
UP TO \$400 MILLION OF SHORT-TERM REVENUE CERTIFICATES  
AND PROVIDING FOR CREDIT FACILITIES AND TRUST AGREEMENTS  
(SHORT-TERM CERTIFICATES RESOLUTION)**

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WHEREAS, pursuant to the Act (as defined herein), the Board of Directors of The Metropolitan Water District of Southern California (the "District") is authorized to provide for the issuance of short-term revenue certificates for any purpose permitted under the Act; and

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

**ARTICLE I**

**DEFINITIONS**

**SECTION 1.01. Definitions.** Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this 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.

"Ad Hoc Committee" has the meaning ascribed to such term in Section 4.01 hereof.

"Board" means the Board of Directors of the District.

"Bonds" has the meaning given that term in the Senior Debt Resolution.

"Certificates" has the meaning ascribed to such term in Section 2.01 hereof (which includes Refunding Certificates) and shall include, as provided in Section 2.01, any form that the District determines, including (without limitation), notes, bonds or any other form indebtedness.

"Credit Facility" means a credit facility, credit agreement, revolving credit agreement, note purchase agreement, bond purchase agreement, bondholder's agreement or similar instrument or agreement with one or more banks or financial institutions pursuant to which such banks or financial institutions commit to purchase Certificates (including without limitation

Refunding Certificates) from time to time and provides for such other terms and conditions as approved pursuant to this Resolution.

“Fourth Supplemental Resolution” means Resolution 8387 adopted by the Board on January 12, 1993.

“Net Operating Revenues” has the meaning given such term in the Senior Debt Resolution.

“Nineteenth Supplemental Resolution” means Resolution 9104 adopted by the Board on December 8, 2009.

“Operation and Maintenance Expenditure” has the meaning given such term in the Senior Debt Resolution.

“Outstanding” has the meaning given such term in the Senior Debt Resolution.

“Parity Obligations” has the meaning given such term in the Senior Debt Resolution.

“Paying Agent” means the paying agent appointed pursuant to the Trust Agreement relating to any Certificates.

“Refunding Certificates” means any Certificates issued for the purpose of refunding or refinancing the Certificates, or providing for, the payment of principal, interest or any other obligation of the District under the Certificates and any Credit Facility.

This “Resolution” means this resolution of the District.

“Senior Debt Resolution” means Resolution 8329 adopted by the District on July 9, 1991, as amended and supplemented from time to time.

“Series” means, whenever used herein with respect to Certificates, all of the Certificates designated as being of the same series under the terms of the related Credit Facility.

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

## **ARTICLE II**

### **THE CERTIFICATES AND CREDIT FACILITIES**

#### **SECTION 2.01. Approval of Certificates and Credit Facilities.**

(a) The District is hereby authorized to issue “The Metropolitan Water District of Southern California Short-Term Revenue Certificates” (the “Certificates”) in one or more Series for one or any combination of the following purposes: (i) to pay or finance the

payment of any Operation and Maintenance Expenditure and any other expenditure that the Board has authorized, (ii) to pay or finance the payment of any expenditure that the District is obligated by law to spend, (iii) to finance the replenishment of the District's reserves, (iv) to finance the construction of any project the Board has authorized the District to construct or finance, (v) and to refund or refinance the Certificates, or to provide for the payment of principal, interest or any other obligation of the District under the Certificates and any Credit Facility. The District is hereby authorized to issue the Certificates in the form of notes, bonds and any other form of indebtedness as determined and approved by the Ad Hoc Committee pursuant to Article IV. The District is hereby authorized to issue the Certificates on the terms and conditions set forth in this Resolution; provided, however, that any such issuance shall satisfy the following conditions:

(i) The aggregate principal amount of all Certificates Outstanding at any time shall not exceed \$400,000,000;

(ii) The Certificates shall bear interest at the rates determined by the Ad Hoc Committee in Article IV; provided, however, the Certificates shall not bear interest at an interest rate in excess of the maximum rate permitted by law; and

(iii) Except for Refunding Certificates, each issuance of Certificates shall not mature later than one year following the date of their issuance.

(b) The District is hereby authorized to negotiate, execute and deliver one or more Credit Facilities and one or more Trust Agreements on the terms and conditions set forth in this Resolution.

### **ARTICLE III SECURITY AND PAYMENT OF CERTIFICATES**

**SECTION 3.01. Security and Source of Payment of Certificates.** The obligations of the District under the Certificates, the Credit Facilities and Trust Agreements shall be payable from and secured by Net Operating Revenues on the terms and conditions, and with the priority, set forth in the Certificates, the Credit Facilities and Trust Agreements and authorized by the Ad Hoc Committee in Article IV, which may include (without limitation) securing such obligations as Parity Obligations or obligations that are subordinate to Parity Obligations.

**SECTION 3.02. Establishment and Application of Funds and Accounts.** The District shall establish, and the Treasurer of the District shall maintain, such funds and/or accounts with respect to the Certificates, Credit Facilities and Trust Agreements as may be required pursuant to the terms of such Certificates, Credit Facilities and Trust Agreements.

## ARTICLE IV

### AD HOC COMMITTEE

**SECTION 4.01. 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 if 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 before 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 if 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 before 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 4.02. Approval of each Series of Certificates.** Subject to the limitations contained in Section 2.01 herein, 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 of each Series of Certificates (including, without limitation, Refunding Certificates), the terms and conditions of, and the execution and delivery of, each Series of Certificates, including, without limitation, each of the following:

- (a) The form of the Certificates, which may include, without limitation, the form of notes or any other form of indebtedness;
- (b) The method of calculating interest on the Certificates;
- (c) The manner of sale of the Certificates (which may be private and negotiated);
- (d) The security and source of payment of the Certificates, as provided in Section 3.01; and
- (e) The maturity of the Certificates.

**SECTION 4.03. Approval of Credit Facilities.** The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the terms and conditions of, and the execution and delivery of, one or more Credit Facilities for each Series of Certificates, including, but not limited to, any fees and charges, interest rates, covenants, events of default and events of termination. The Ad Hoc Committee or its designee may approve and the District may execute and deliver any Credit Facility separately and independently from the issuance of any Certificates authorized under this Resolution. The Ad Hoc Committee is hereby authorized to determine whether and under what terms and conditions the Certificates and any other Parity Obligations are deemed to be “Outstanding” within the meaning of the Senior Debt Resolution.



**SECTION 4.04. Approval of Trust Agreements.** The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the terms and conditions of, and the execution and delivery of, one or more Trust Agreements with respect to any Certificates, including, but not limited to, any fees and charges, interest rates, covenants, events of default and events of termination. The Ad Hoc Committee or its designee may approve and the District may execute and deliver any Trust Agreement separately and independently from the issuance of any Certificates authorized under this Resolution.

**SECTION 4.05. Approval of Ad Hoc Committee.** The determination, establishment or approval by the majority of members of the Ad Hoc Committee shall constitute the determination, establishment and approval of the Ad Hoc Committee pursuant to this Article IV.

**SECTION 4.06. Further Action.** The Chairman of the Board, the General Manager and Chief Financial Officer of the District be and each of them is hereby authorized, empowered and directed to execute such other documents 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 Resolution.

## ARTICLE V

### MISCELLANEOUS

**SECTION 5.01. Severability of Invalid Provisions.** If any one or more of the provisions contained in this Resolution 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 Resolution and such invalidity, illegality or unenforceability shall not affect any other provision of this Resolution, and this Resolution shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The District hereby declares that it would have adopted this Resolution and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Certificates, Credit Facilities and Trust Agreements pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Resolution may be held illegal, invalid or unenforceable.

**SECTION 5.02. 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 Resolution.

All references herein to "Article," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Resolution; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this 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 5.03. Refunding of Certificates.** The Board hereby determines that the refunding, refinancing, payment and/or satisfaction of the Certificates, Credit Facilities and Trust Agreements are authorized purposes for the issuance of Bonds under the Fourth Supplemental Resolution and the Nineteenth Supplemental Resolution, and hereby authorizes the District to issue Bonds for such purposes under the terms and conditions of the Fourth Supplemental Resolution and Nineteenth Supplemental Resolution, as applicable.

**SECTION 5.04. Governing Law.** This 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 50 percent 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 March 8, 2016.

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