



- **Board of Directors**
Finance and Asset Management Committee

10/8/2024 Board Meeting

7-9

Subject

Adopt resolution authorizing the reimbursement of capital expenditures from bond proceeds for fiscal years 2024/25 and 2025/26; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

The Resolution of Reimbursement of capital expenditures from bond proceeds in **Attachment 1** (Resolution of Reimbursement) evidences the intention to use tax-exempt bond proceeds or other forms of indebtedness to finance capital expenditures for projects and to use some or all available bond proceeds to reimburse Metropolitan for costs paid for such projects. The Resolution of Reimbursement would satisfy the Internal Revenue Service (IRS) regulatory requirement to declare an “official intent” to reimburse a capital expenditure. If adopted, Metropolitan would be authorized to use tax-exempt bond proceeds to reimburse capital expenditures initially paid or to be paid by operating revenues or other available resources. Adoption of the Resolution of Reimbursement provides Metropolitan with financial flexibility during the current and next fiscal year, if needed, to issue tax-exempt bonds when deemed most appropriate. The Resolution of Reimbursement does not change the amount or method of funding capital expenditures approved by Metropolitan’s Board in the Adopted Biennial Budget for fiscal year (FYs) 2024/25 and 2025/26. The Resolution of Reimbursement will give Metropolitan the option and flexibility of reimbursing itself for capital project expenditures made prior to the issuance of tax-exempt bonds.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

Adopt the resolution authorizing the reimbursement of capital expenditures from bond proceeds for FY 2024/25 and FY 2025/26 as contained in **Attachment 1**.

Fiscal Impact: The Resolution of Reimbursement would allow Metropolitan to continue to fund approved capital projects and use tax-exempt bond proceeds to reimburse Capital Investment Plan (CIP) and other capital expenditures in FY 2024/25 and FY 2025/26 initially funded with operating revenues or reserves.

Business Analysis: Option #1 would provide Metropolitan the ability to reimburse operating revenue or reserve-funded capital expenditures with tax-exempt debt proceeds. Such reimbursed funds would replenish funds that then may be used for any lawful purpose.

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 2024/25 and FY 2025/26. Without this reimbursement resolution, Metropolitan may be required to

pay certain capital expenditures out of operating revenues instead of bond proceeds as intended under the Adopted Biennial Budget. Further, by not adopting this Resolution of Reimbursement, Metropolitan will not be able to reimburse itself from tax-exempt bond proceeds for capital expenditures funded from operating revenues, which would lower reserves and potentially have negative implications for certain financial metrics, such as debt service coverage and fixed charge coverage, impacted by costs related to the supply and demand management programs intended to be bond financed.

Business Analysis: Option #2 would limit Metropolitan’s financial flexibility in FY 2024/25 and FY 2025/26, as Metropolitan could not reimburse operating revenue or reserve-funded capital expenditures with tax-exempt bond proceeds. Therefore, Metropolitan’s operating revenues may not be sufficient to pay for approved capital expenditures in accordance with the Board’s Adopted Biennial Budget for FYs 2024/25 and 2025/26.

Alternatives Considered

Not applicable

Applicable Policy

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

Metropolitan Water District Administrative Code Section 5108(d): Appropriations

Metropolitan Water District Administrative Code Section 5109: Capital Financing

Metropolitan Water District Administrative Code Section 5200(a) and (b): Funds Established

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Related Board Action(s)/Future Action(s)

Not applicable

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under 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. (State CEQA Guidelines Section 15378(b)(4)).

CEQA determination for Option #2:

None required

Details and Background

Background

The Biennial Budget for FYs 2024/25 and 2025/26, adopted by Metropolitan’s Board on April 9, 2024 (“Biennial Budget”), included funding capital expenditures from a combination of bonds and operating revenues. A total of \$630 million of planned CIP spending is presented in the CIP section of the Biennial Budget. The estimated CIP expenditures are planned to be funded with \$280 million of bond proceeds and \$350 million of operating revenues for the term of the Biennial Budget. In addition, the Board approved as part of the Biennial Budget bond financing for additional capital expenditures not in the CIP—the Antelope Valley East Kern High Desert Groundwater Storage Program (“AVEK”) in the amount of \$177.9 million and the conservation program in the amount of \$48.2 million.

The portion of CIP and conservation program expenditures anticipated to be bond financed during the current biennium will be paid from: (a) note proceeds of short-term notes issued as interim financing under a Revolving Credit Agreement with Bank of America, N.A, and (b) bond proceeds from the recently completed Water

Revenue and Refunding Bonds, 2024 Series C and Variable Rate Subordinate Water Revenue Refunding Bonds, 2024 Series D transactions. Long-term bond financing for AVEK, however, has not yet occurred.

Adoption of the attached Resolution of Reimbursement will allow Metropolitan to fund AVEK capital expenditures and additional CIP expenditures, if necessary, out of available resources, including financial reserves, until tax-exempt new money bonds are issued when market conditions are favorable. This approach is a conventional procedure used by many public issuers as part of their strategy to access the capital markets. The ability to use tax-exempt bond proceeds to reimburse Metropolitan for capital expenditures paid or to be paid by operating revenues or reserves will provide the Board with financial flexibility to meet its approved budget priorities and expenditure plan. The not-to-exceed bond par amount of \$225 million in the Resolution of Reimbursement is conservatively estimated by staff to generate the required bond proceeds, taking into consideration potential premiums and/or discounts under varying market conditions at the time of sale.

By adopting the Resolution of Reimbursement, Metropolitan indicates its expectation to issue tax-exempt debt and use the proceeds to reimburse certain capital expenditures, initially funded with operating revenues, with such tax-exempt bond proceeds. In accordance with IRS regulations, Metropolitan is required to declare its “official intent” to reimburse a capital expenditure no later than 60 days after the payment of the original expenditure to be reimbursed. This Resolution of Reimbursement will meet the “official intent” requirement under IRS regulations. The Resolution of Reimbursement does not change the amount or method of funding capital expenditures approved by Metropolitan’s Board in the Biennial Budget for FYs 2024/25 and 2025/26.

The Board previously adopted resolutions of reimbursement in 2015, 2016, 2019, 2020, and 2022.



Katano Kasaine 10/3/2024
Assistant General Manager/Chief Financial Officer Date



Deven Upadhyay 10/3/2024
Interim General Manager Date

Attachment 1 – Resolution of The Board Of Directors of The Metropolitan Water District of Southern California Pertaining to the Reimbursement of Capital Expenditures From Bond Proceeds

Ref# cfo12697878

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 OF CAPITAL EXPENDITURES FROM BOND
PROCEEDS

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

1. The Metropolitan Water District of Southern California (“Metropolitan”) desires and expects to debt finance certain construction costs relating to its Capital Investment Plan as approved in its Biennial Budget for Fiscal Years 2024/25 and 2025/26, and other capital expenditures relating to Metropolitan’s water delivery system (“Projects”);

2. Metropolitan expects to issue up to \$225 million in additional debt during fiscal years 2024/25 and 2025/26 to finance the Projects, or portions of the Projects, with obligations, the interest upon which is excluded from gross income for federal income tax purposes (the “Debt”);

3. 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;

4. Metropolitan reasonably expects to reimburse certain of such capital expenditures with the proceeds of the Debt;

5. Metropolitan expects that the maximum principal amount of Debt that will be issued to pay for the costs of the Projects (and related issuance costs) will not exceed \$225 million;

6. At the time of the reimbursement for the Projects, Metropolitan will evidence such reimbursement in writing which identifies the allocation of the proceeds of the Debt to Metropolitan for the purpose of reimbursing Metropolitan for the capital expenditures prior to the issuance of the Debt;

7. Metropolitan expects to make each of the reimbursement allocations no later than eighteen (18) months after the latter 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 or other capital expenditure is paid;

8. 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

9. 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 hereby finds, resolves, determines and orders 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 \$225 million in fiscal years 2024/25 and 2025/26, the proceeds of which will be used to pay for the costs of the Projects and other capital expenditures (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 issuance of any Debt, 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 on October 8, 2024.

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