



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

10/11/2022 Board Meeting

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**7-1**

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## **Subject**

Adopt resolution authorizing the reimbursement of capital expenditures from bond proceeds for fiscal years 2022/23 and 2023/24; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

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## **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 IRS regulatory requirement to declare an “official intent” to reimburse a capital expenditure no later than 60 days after the payment of the original expenditure to be reimbursed. 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 FYs 2022/23 and 2023/24. 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.

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## **Details**

### **Background**

The Biennial Budget for fiscal year (FY) 2022/23 and FY 2023/24, adopted by Metropolitan’s Board on April 12, 2022, included funding capital expenditures from a combination of bonds and operating revenues. The total \$600 million planned capital improvement plan (CIP) spending, as presented in the CIP section of the Board Adopted FY 2022/23 and FY 2023/24 Biennial Budget is estimated to be \$300 million for FY 2022/23 and \$300 million for FY 2023/24. The estimated CIP expenditures are planned to be funded with \$135 million of operating revenues and approximately \$165 million from bond proceeds each fiscal year of the current Adopted Biennial Budget. In addition, the Board approved as part of the current Adopted Biennial Budget, bond funding for additional capital expenditures not in the CIP—the AVEK High Desert Program in the amount of \$97.9 million and the conservation program in the amount of \$36.0 million.

Since April 2022, Treasury and Debt Management staff has monitored the District’s capital expenditures and bond proceeds balance to determine the optimal time to enter the capital markets or introduce a reimbursement resolution for the Board’s consideration. Based on current monthly CIP expenditure projections, the balance of remaining bond proceeds is projected to be depleted by the end of October 2022.

Adoption of the attached Resolution of Reimbursement will allow Metropolitan to fund planned CIP and other capital expenditures out of available resources, including financial reserves, until tax-exempt new money bonds are issued when market conditions are more 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 \$515 million in the Resolution of Reimbursement is conservatively estimated by staff to generate approximately \$464 million of required bond proceeds, taking into consideration potential premium 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 Internal Revenue Service (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 2022/23 and 2023/24.

Resolutions of reimbursement were previously adopted by the Board in 2015, 2016, 2019, and 2020.

## **Policy**

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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

## **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 (Public Resources Code Section 21065, State CEQA Guidelines Section 15378) because it involves continuing administrative activities, such as general policy and procedure making will not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment (Section 15378(b)(2) of the State CEQA Guidelines). (Section 15378(b)(2) of the State CEQA Guidelines). In addition, 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 (Section 15378(b)(4) of the State of CEQA Guidelines).

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

None required

## **Board Options**

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### **Option #1**

Adopt the resolution authorizing the reimbursement of capital expenditures from bond proceeds for FY 2022/23 and FY 2023/24 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 CIP and other capital expenditures in FY 2022/23 and FY 2023/24 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 2022/23 and FY 2023/24. 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 2022/23 and FY 2023/24, 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 FY 2022/23 and FY 2023/24.

**Staff Recommendation**


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Option #1

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

10/6/2022

Date

  
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Adel Hagekhalil  
General Manager

10/7/2022

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# cfo12682118

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 and other capital expenditures relating to Metropolitan’s water delivery system (“Projects”);
2. Metropolitan expects to issue up to \$515 million in debt during fiscal years 2022/23 and 2023/24 to finance the Projects, or portions of the Projects, with the sale of 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 which will be issued to pay for the costs of the Projects (and related issuance costs) will not exceed \$515 million;
6. At the time of the reimbursement for the Projects, Metropolitan will evidence such reimbursement in a 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 later 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 \$515 million in fiscal years 2022/23 and 2023/24, 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 11, 2022.

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