

SESSION TWO

Steps and Considerations in Crafting the Initial Disclosure Documents



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Overview of ArentFox Schiff

- ArentFox Schiff LLP is internationally recognized in core industries where business and the law intersect.
- With offices in Boston, Chicago, Los Angeles, New York, San Francisco, and Washington, DC, and more than 650 lawyers and policy professionals, ArentFox Schiff provides strategic legal counsel to clients that range from Fortune 500 corporations and start-ups, to state, local, and foreign governments, trade associations, and private individuals.
- Our attorneys know that being Smart in Your World isn't just about having great legal skills. It means knowing your business, your industry, and your goals — and using that insight to solve challenges creatively and efficiently. Through decades of service, our attorneys have understood that hard work and talent are just a starting point for being considered a premier law firm, a distinction that ArentFox Schiff has earned from The American Lawyer, Chambers USA, and Legal 500.
- As one of the most diverse general practice law firms in the country, ArentFox Schiff has roots in government service, a focus on legal excellence, and a commitment to the administration of justice. Our lawyers have consistently distinguished themselves as leaders in pro bono representation, while many continue to play prominent roles in public service.
- ArentFox Schiff is proud of its reputation for understanding our clients' business, their industry, and their world.

Overview of Metropolitan Water District of Southern California

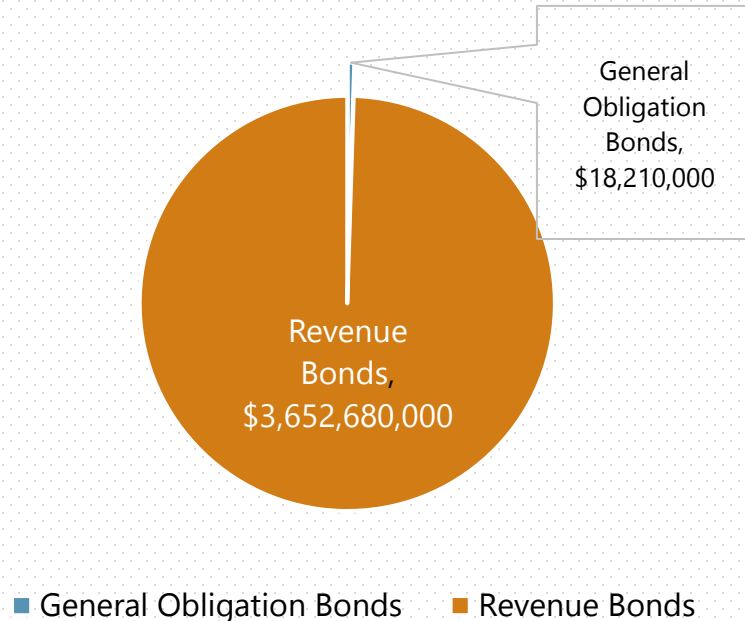
- Metropolitan (or MWD) was formed in 1928 pursuant to a state act to provide regional water supply to Southern California
- MWD is a California regional planner, owner, operator and wholesale distributor of water
- Serves 19 million people across six Southern California counties
- We are a voluntary cooperative of 26 member agencies
- We are governed by a 38-member board of directors, comprised of representatives of our Member Agencies
- MWD is the largest distributor of treated drinking water in the U.S.



Overview of Metropolitan's Debt Program



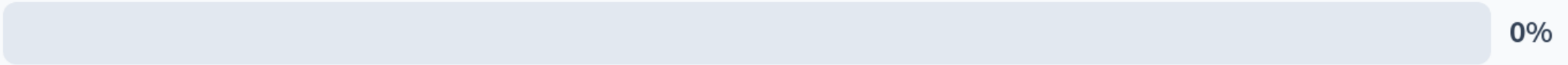
MWD Debt by Type (as of July 1, 2024)



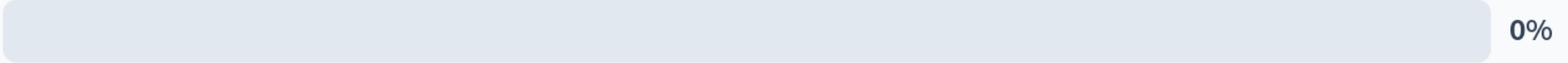
- As of July 1, 2024, Metropolitan had a total of \$3.7 billion of total debt outstanding.
- Metropolitan issues debt to fund a portion of its capital infrastructure investments.
- Metropolitan manages the amount of debt leveraged on its balance sheet through PAYGO targets at roughly 45% of total CIP expenditures.
- Of the revenue bond debt outstanding, approximately 75% is on the senior lien, 25% on the subordinate lien.
- While almost 80% of our debt is traditional fixed-rate, the remaining portion is comprised of variable-rate, synthetically-fixed debt (hedged by our swap portfolio), and put bonds (3yr to 7yr terms)

When did your agency last issue debt?

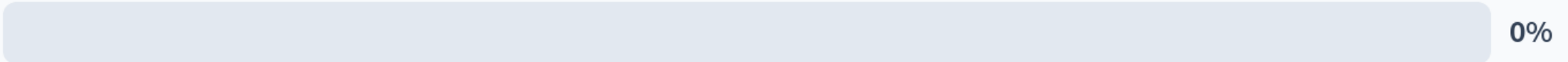
Within the last six months



Within the last year



More than one year ago



Why Provide Disclosure?

- Investors in municipal securities have rights under federal securities laws
- To disclose all information **material** to investors in making an informed decision to purchase, sell, or hold the District's debt
- To protect the issuer
 - ❖ Include material risks that may arise related to the revenues, project, industry, demographics, etc.

Disclosure Laws

- Securities Act of 1933 - “Truth in Securities Law”
 - ❖ Requires that investors receive financial and other significant information for securities prior to sale
 - ❖ Section 17(a) – Antifraud Rule – Prohibits deceit, misrepresentations, and fraud in sale of securities
- Exchange Act of 1934 – Created the SEC; conferred broad authority to the SEC to register, regulate, and oversee securities transactions and participants; and require periodic filings
 - ❖ Section 10(b) – prohibits use of manipulative or deceptive acts in connection with purchase or sale of securities
 - Rule 10b-5 – prohibits the making of untrue statements of material facts or omitting to state material facts that are necessary to make the statements in the offering document not misleading
- Rule 15c2-12

When do Disclosure Laws Apply?

- Whenever the issuer “speaks to the market”
- Examples:
 - Primary disclosure in Official Statements and Offering Memoranda
 - Annual Reports
 - Event Notices and Voluntary filings pursuant to Rule 15c2-12
 - Investor Communications
 - Other public statements made by the Issuer and its officials, including press releases, public statements, interviews, website, social media, and speeches
 - Reports delivered to governmental agencies
 - Issuer statements made that are reasonably expected to reach investors are also subject to antifraud provisions

Disclosure Policies and Procedures

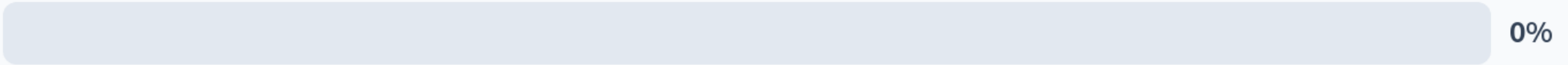
- Provides general guidelines for the preparation of initial and continuing disclosure, including:
 - ❖ Identifying members of the Disclosure Working Group
 - ❖ Roles and responsibilities of Disclosure Working Group members for preparing disclosure
 - ❖ Defining a process for drafting, reviewing, and finalizing all disclosure documents
 - ❖ Identifying person(s) responsible for providing final sign-off for prepared disclosure
 - ❖ Empowering staff at all levels to provide input
 - ❖ Providing legislative body sufficient time for review and comment
 - ❖ Providing for periodic review and update of disclosure policies and procedures

Disclosure Policies and Procedures (cont.)

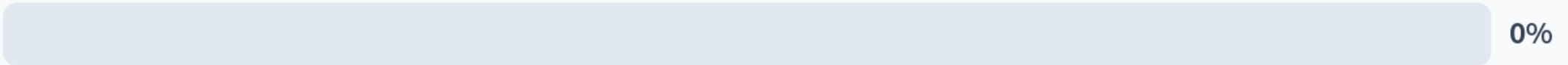
- Incorporates best practices
- Focuses on the “big picture”
- Encourages disclosure of the good **and** the bad
- Retains knowledgeable counsel and professionals
- Provides appropriate and regular training to officials and staff
- Is reviewed and revised periodically by the disclosure working group

Has your agency formed a disclosure working group?

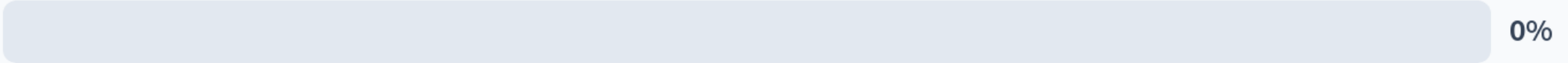
Yes



No

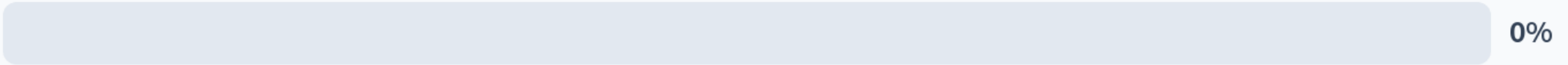


Not quite yet, but we expect to do so this fiscal year

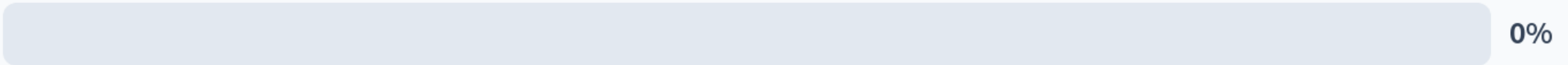


Are you a member of your Disclosure Working Group?

Yes



No



Who is Responsible for Preparing Disclosure?

You*

* With assistance from the Financing Team

Financing Team

Issuer Team + Other Professionals = Financing Team

Issuer Team

- Issuer
- Department Representatives
- Issuer's Counsel
- Bond Counsel
- Disclosure Counsel
- Municipal Advisor
- Feasibility Consultant
- Appraiser

Other Professionals

- Trustee / Paying Agent / Fiscal Agent
- Trustee's Counsel
- Underwriter
- Underwriter's Counsel
- Securities Repository (DTC)
- Credit Enhancer
- Rebate Consultant
- Dissemination Agent
- Borrower and Borrower's Counsel (Conduit Transaction)
- Verification Agent (Refundings)
- Remarketing Agent (Variable Rate Transaction)
- Letter of Credit Bank (Variable Rate Transaction)

Preliminary Considerations

- ❖ **What** is being financed?
- ❖ **What** law authorizes the financing?
- ❖ **How** will the financing be structured?
- ❖ **What** is the source of funds to repay the borrowing?
- ❖ **Who** at the issuer will be responsible for ongoing continuing disclosure compliance?

Getting Started

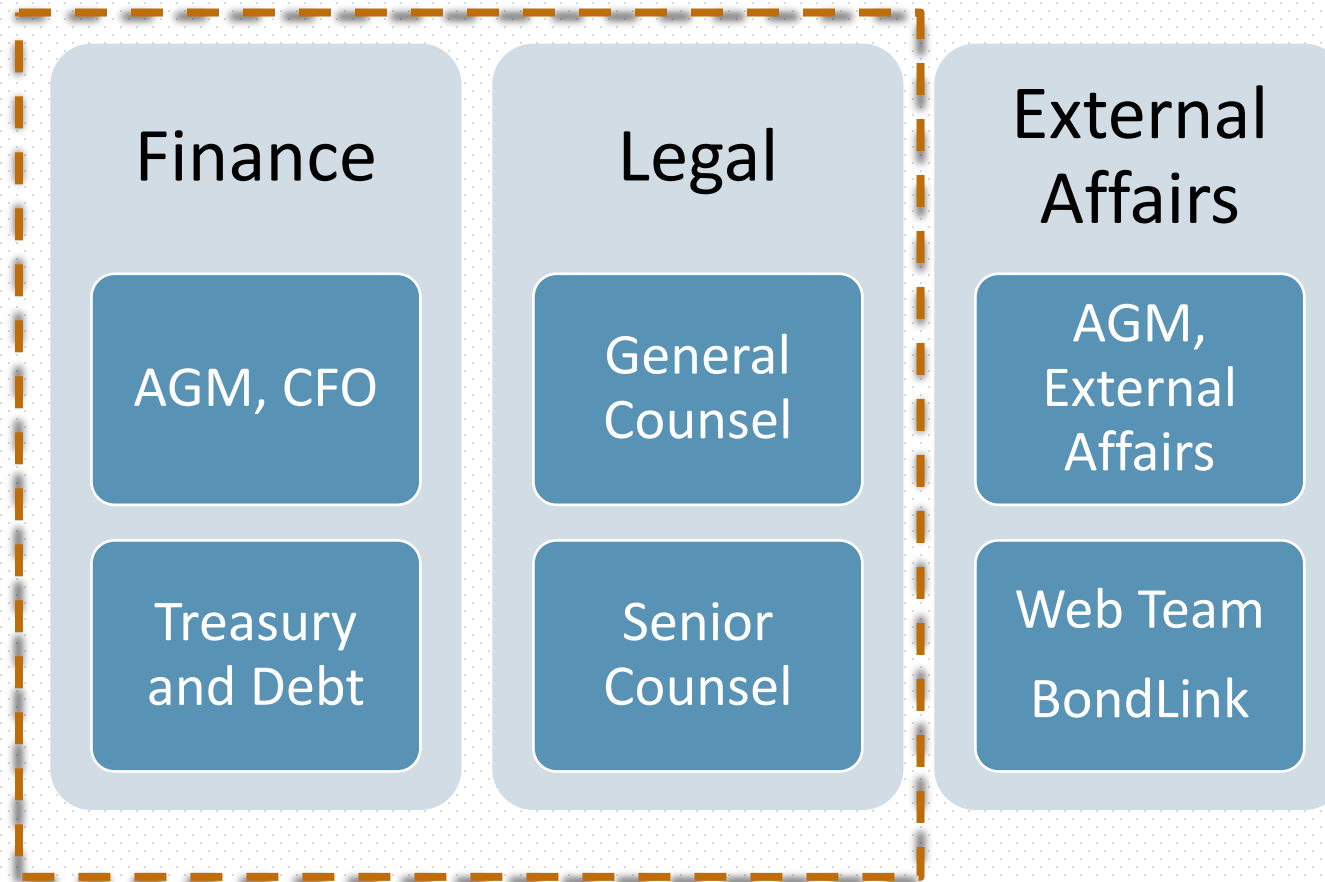
- Follow your adopted written disclosure policies and procedures, which:
 - ❖ Define a process for drafting and reviewing all disclosure documents
 - ❖ Empower staff at **all** levels to provide input
 - ❖ Provide legislative body sufficient time for review and comment
 - ❖ Review and update disclosure policies and procedures regularly
- Incorporate best practices for disclosure
- Focus on the “big picture”
- Disclose the good **and** the bad
- Retain knowledgeable counsel and professionals
- Provide appropriate and regular training to officials and staff

Met Water Debt Issuance Approach

- Biennial Budget Document describes our CIP
- Work with our Municipal Advisor to Refine our Plan of Finance
- Assemble our Financing Teams for the Calendar Year Agenda
- Manage the Cycle of Bond Issuances around two Main Disclosure Updates (Spring/Summer and Fall/Winter)

Metropolitan's Disclosure Working Group

- Metropolitan's Finance team partners with its Legal team (internal and external) through an official Disclosure Working Group to ensure we provide accurate and timely responses related to our public disclosure requirements.



In addition, Finance and Legal coordinate with our External Affairs team to make relevant information available on our website as well as our customized Investor Relations portal.

What is an Official Statement?

- A document prepared by or on behalf of a state or local government in connection with the issuance of municipal securities
- An official statement is similar to a prospectus that is used in corporate securities offerings
- Provides material information to investors about the transaction

NEW ISSUE – (FULL BOOK-ENTRY)

See "RATINGS" herein.

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, and Amira Jackson, Attorney at Law, Berkeley, California, Co-Bond Counsel to Metropolitan, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the 2024A Bonds and requirements of the Internal Revenue Code of 1986, as described herein, interest on the 2024A Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In the further opinion of Co-Bond Counsel, interest on the 2024A Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax on individuals. Co-Bond Counsel is also of the opinion that, under existing laws, interest on the 2024A Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS."



\$367,005,000 THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA Water Revenue Refunding Bonds, 2024 Series A

Dated: Date of Delivery

Due: April 1, as shown on the inside cover page

The Metropolitan Water District of Southern California ("Metropolitan") is issuing its \$367,005,000 Water Revenue Refunding Bonds, 2024 Series A (the "2024A Bonds") to provide moneys, (i) together with other available funds, to refund certain outstanding Parity Bonds and Parity Obligations, and (ii) to pay the costs of issuance of the 2024A Bonds. See "PLAN OF REFUNDING." Capitalized terms used on this cover page not otherwise defined will have the meaning set forth herein.

The 2024A Bonds will mature in the principal amounts on the dates and in the years, and will bear interest at the respective per annum rates of interest, as set forth on the inside cover page hereof. The 2024A Bonds are being issued as fully registered bonds, in book-entry only form, in denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the 2024A Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2024. See "DESCRIPTION OF THE 2024A BONDS."

The 2024A Bonds, when issued, will be registered in the name of Code & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Principal of and interest on the 2024A Bonds will be payable directly to DTC. Upon receipt of payments of such principal and interest, DTC is obligated to remit such payments to its DTC participants for subsequent disbursements to the beneficial owners of the 2024A Bonds. See APPENDIX D- "BOOK-ENTRY ONLY SYSTEM."

The 2024A Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2024A BONDS - Redemption."

The 2024A Bonds are special limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon Net Operating Revenues on parity with Metropolitan's outstanding Parity Bonds and other Parity Obligations and any Parity Bonds and Parity Obligations Metropolitan may hereafter issue or incur as described herein. As of April 1, 2024, Metropolitan had outstanding \$2.63 billion aggregate principal amount of Parity Bonds payable from Net Operating Revenues, and \$176.4 million of senior lien short-term notes constituting Parity Obligations payable from Net Operating Revenues on a parity therewith, as well as certain other Parity Obligations. Metropolitan has also issued or incurred, and may in the future issue or incur, bonds and other obligations payable from and secured by a lien upon Net Operating Revenues subordinate to the lien thereon of the 2024A Bonds and all Parity Bonds and Parity Obligations. As of April 1, 2024, Metropolitan had outstanding \$1.09 billion aggregate principal amount of Subordinate Bonds, as well as certain other Subordinate Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2024A BONDS." See also "PLAN OF REFUNDING."

The 2024A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2024A Bonds or the interest thereon. The obligation to pay the principal of and interest on the 2024A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues as described in this Official Statement. Metropolitan will not fund a reserve fund for the 2024A Bonds.

The 2024A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Norton Rose Fulbright US LLP and Amira Jackson, Attorney at Law, Co Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for Metropolitan by its General Counsel, and for the Underwriters by their counsel, ArentFox Schiff LLP. Stradling Yocca Carlson & Rauth LLP is acting as Disclosure Counsel to Metropolitan in connection with the issuance of the 2024A Bonds. PFM Financial Advisors LLC is serving as Municipal Advisor to Metropolitan in connection with the issuance of the 2024A Bonds. Metropolitan anticipates that the 2024A Bonds will be available in book-entry form only for delivery through the facilities of The Depository Trust Company by Fast Automated Securities Transfer (FAST) on or about May 8, 2024.

Siebert Williams Shank & Co., LLC

BofA Securities

Blaylock Van, LLC

Dated: April 22, 2024

Anatomy of an Official Statement

- Introduction
- Plan of Finance
- Sources and Uses of Funds
- Project Description
- Security for the Bonds and Sources of Payment
- Capital Improvement Plan
- Issuer Financial and Relevant Operating Information
- Risk Factors
- Absence of Material Litigation
- Continuing Disclosure Compliance
- Appendices
 - ❖ Audited Financial Statements
 - ❖ Economic, Demographic, and Statistical Data
 - ❖ Form of Bond Opinion
 - ❖ Form of Continuing Disclosure Undertaking
 - ❖ DTC Disclosure
 - ❖ Third Party Documents and Certifications



What is your biggest concern regarding Disclosure?

Panic of missing a key item

0%

Our document is too verbose

0%

Getting the attention of relevant parties

0%

Issuer Protections

- Disclosures in OS are important to protect the issuing agency
 - ❖ Include any risk that may arise (related to industry, demographics, etc.)
- Development of OS
 - ❖ Work with Issuer Team and Disclosure Counsel to prepare document
 - ❖ Review all sections prepared by Disclosure Counsel from publicly available documents closely (read **everything** to ensure authenticity and accuracy)
 - ❖ Discuss industry risk and what should be included in OS
 - ❖ **Slow down** a transaction when necessary or let Disclosure Counsel know if information is not yet available and when it is expected to be available (e.g. audited financial statements, pledged revenues, etc.)

Consequences of Inadequate Disclosure

➤ Possible Consequences of Inadequate Disclosure

- ❖ SEC Investigations; Enforcement actions
- ❖ Adverse publicity
- ❖ Personal liability and fines
- ❖ Lifetime bars from involvement in future municipal finance transactions; criminal charges against issuer officials
- ❖ Injunctions; Requirement to retain professionals
- ❖ Reduced Market access
- ❖ Imposition of new procedures and outside oversight to settle SEC actions
- ❖ Ratings downgrades

Best Practices

- Disclosure evolves to reflect current circumstances and concerns
- Approach each financing with “fresh eyes”
- Frequent issuers should review Official Statement for “disclosure bloat”
- Raise concerning issues with your Issuer Team
- Make sure that all the right people are in the room
- Don’t ignore obligations under securities laws
- **Tell the full story**

Need More Information?

- California Debt and Investment Advisory Commission
www.treasurer.ca.gov/cdiac
- Government Finance Officers Association www.gfoa.org
- Municipal Securities Rulemaking Board www.msrb.org
- National Association of State Auditors, Comptrollers and Treasurers
www.nasact.org
- National Federation of Municipal Analysts www.nfma.org
- Securities Industry and Financial Markets Association
www.sifma.org

QUESTIONS?



JACQUELYNNE JENNINGS

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SAMUEL SMALLS

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Metropolitan Water District of
Southern California