MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Report

August 18, 2008
Chief Financial Officer

- Water Revenue Refunding Bonds, 2008 Series C Issue

Summary

On July 31, 2008, Metropolitan closed a $79.0 million water revenue refunding bond issue to refund $70.1 million of outstanding water revenue bonds and provide funds for a $7.99 million termination payment on an interest rate swap transaction associated with the refunded bonds. The savings on this transaction are anticipated to average $726,000 per year through July 2023, resulting in net present value savings of $9.6 million.

Detailed Report

Metropolitan priced the $79,045,000 Water Revenue Refunding Bonds, 2008 Series C issue (the "2008 Series C bonds") on July 10, 2008. The 2008 Series C bonds were issued for the purpose of refunding Metropolitan's $70,140,000 of outstanding Water Revenue Refunding Bonds, 1996 Series A issue, and to fund an interest rate swap termination payment to AIG Financial Products Corp. of $7.99 million. The interest rate swap was terminated on July 10, 2008. The refunding transaction closed on July 31, 2008, at which time the 1996 Series A Water Revenue Refunding Bonds were no longer outstanding.

As previously reported to the Business and Finance Committee, the cost of funds swap with AIG (whereby AIG paid Metropolitan the interest rate on the 1996 Series A bonds and Metropolitan paid AIG a fixed rate of 4.99 percent) performed as anticipated since its inception in 1996. However, in the fourth quarter of 2007, the 1996 Series A bonds, which were insured by Ambac, began to trade at significantly higher yields due to investor concerns over the financial condition of Ambac. Because of these concerns the remarketing agent (UBS) was unable to remarket the bonds, and instead "put" the bonds to the liquidity bank. As a result, Metropolitan would no longer receive the cost of funds from AIG under the swap agreement, and instead would receive payments based on 60 percent of one-month LIBOR. Since 60 percent of one-month LIBOR is lower than the rate at which the bonds would trade, AIG's payment to Metropolitan no longer covered the variable rate payment on the 1996 Series A bonds. Therefore, Metropolitan in consultation with its financial and swap advisors determined that the best course of action was to refund the bonds, negotiate a termination of the swap with AIG, and use a portion of the refunding proceeds to fund the termination payment. The refunding savings calculation assumed that the cost of funds swap would no longer be in effect, and the net cost to Metropolitan of the 1996 Series A transaction would be approximately 8.00 percent over the remaining life of the bonds.

The all-in true interest cost (TIC) for the refunding transaction was 3.77 percent[1] with an average life of 7.3 years. The refunding transaction will produce present value savings of $9.6 million through July 1, 2023, net of costs and expenses incurred by Metropolitan for the refunding transaction.

An appropriation for the cost of issuance of the refunding bonds was approved by the Board at the June 10, 2008 Board meeting. Goldman, Sachs & Co. served as the lead senior underwriter and Loop Capital Markets, Inc. served as co-senior underwriter for the 2008 Series C refunding bonds. Other members of the underwriting syndicate included Citi; De La Rosa & Co.; JP Morgan; Morgan Stanley & Co. Incorporated; Merrill Lynch & Co.; Ramirez & Co., Inc.; Siebert Brandford Shank & Co., LLC; and Stone & Youngberg. Public Resources Advisory Group served as financial advisor, and Swap Financial Group served as swap advisor. Nixon Peabody LLP and Quateman LLP served as co-bond counsel.

The estimated costs and expenses associated with the 2008 Series C bonds are as follows:

[1] If the swap termination payment is included in the calculation, the all-in TIC is 5.51 percent.

Estimated Costs:

	Amount	$/1,000 Bond
Co-Bond Counsel	$100,000	$ 1.26
Rating Agencies	75,000	0.95
Swap Advisor	75,000	0.95
Financial Advisor	60,000	0.76
Printing/Mailing	30,000	0.38
Other/Contingency	10,000	0.13
Total	**$350,000**	**$ 4.43**

Underwriter's Discount:

	Amount	$/1,000 Bond
Takedown (sales fees)	$277,835	$ 3.51
Management Fee	50,000	0.63
Expenses		
- Underwriters Counsel	25,000	0.32
- Other (e.g. CDIAC, Dalcomp Fees, etc.)	28,170	0.36
Total	**$381,005**	**$ 4.82**
Total Costs of Issuance	**$ 731,005**	**$ 9.25**

Savings from Bond Refundings

Since February 2001, Metropolitan has issued over $2.63 billion of water revenue refunding bonds, with estimated savings over $207 million on a present value basis and at least $13.2 million per year (on average) over the next 20 years. This equates to approximately $6.50 per acre-foot of savings on future water rates. The following table summarizes each of the transactions, along with the net present value savings, the average annual savings, true interest cost, and the average maturity of the refunding bond issues:

Revenue Refunding Bond Issue		NPV Savings	Average Annual Savings	True Interest Cost	Average Maturity
2001 Series A	$195.7M	$ 9.6 million	$ .7 million	4.50%	12.7 years
2001 Series B1-B2	$224.8M	$15.0 million	$1.0 million	4.22%	15.2 years
2002 Series A&B	$132.2M	$ 9.7 million	$ .7 million	3.30%	18.1 years
2003 Series A	$ 36.2M	$ 3.0 million	$ .1 million	3.34%	9.1 years
2003 Series C1-C3	$338.2M	$21.1 million	$1.3 million	3.26%	20.8 years
2004 Series A1-A2	$162.5M	$11.4 million	$1.1 million	2.92%	15.4 years
2004 Series B	$274.4M	$12.2 million	$1.1 million	3.14%	8.3 years
2004 Series C	$136.1M	$11.0 million	$ .6 million	3.23%	14.9 years
2006 Series A1-A2	$ 74.1M	$ 6.4 million	$ .7 million	3.22%	11.3 years
2006 Series B	$ 45.9M	$ 2.0 million	$ .1 million	4.48%	16.4 years
2007 Series A1-A2	$218.4M	NA (a)	NA (a)	NA (a)	9.6 years
2007 Series B	$ 81.9M	NA (a)	NA (a)	NA (a)	26.8 years
2008 Series A1-A2	$501.6M	$89.2 million (b)	$4.4 million	3.47% (b)	17.3 years
2008 Series B	$133.4M	$ 6.8 million	$ .7 million	4.11%	11.9 years
2008 Series C	$ 79.0M	$ 9.6 million (c)	$ .7 million	3.77%(c)	7.3 years

(a) The 2007 Series A1-A2 and 2007 Series B variable rate water revenue refunding bonds were Auction Rate Securities, and were refunded by the 2008 Series A1-A2 variable rate water revenue refunding bonds, anticipated savings reflected in projected savings for the 2008 Series A1-A2 issue.

(b) Variable rate bonds, initial weekly interest rate of 1.85%, weekly interest rates will vary over time. Savings calculations based on an average interest rate of 3.43% on the 2008 Series A1-A2 issue, and an average interest rate of 5.00% on the refunded ARS.

(c) Savings calculations were based on Metropolitan paying an average rate of 4.165% on the 1996 Series A Ambac insured VRDO's; receiving 60% of one-month LIBOR equal to 1.48% from AIG; paying 4.99% to AIG on the cost of funds swap; and paying 32.5 basis points for remarketing fees and liquidity costs over the life of the bonds resulting in a net cost to Metropolitan of 8.00%. If the swap termination payment is included in the calculation, the all-in TIC is 5.51%.

If you have any questions or comments, please contact me at (213) 217-7121, or by e-mail at bthomas@mwdh2o.com.