Metropolitan's Credit Rating

Finance and Insurance Committee

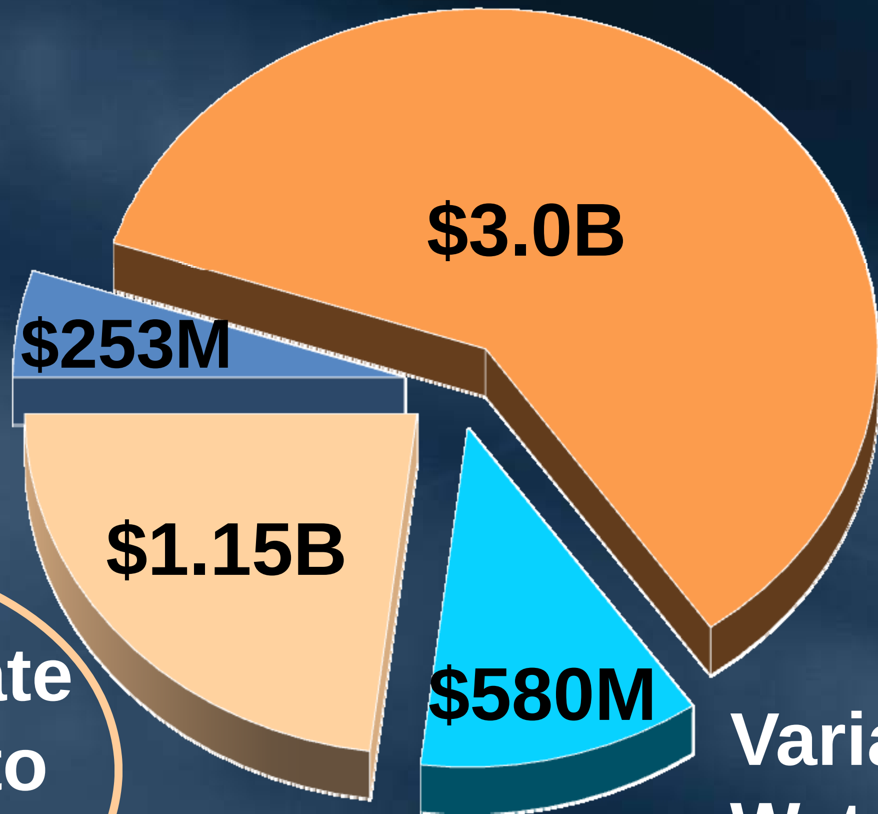
Item 7-a

May 9, 2011

Overview

- Outstanding Debt
- Rating Agency Credit Ratings
- Basis for Metropolitan's Ratings
- Benefits of Strong Credit Rating
- Impact of Rating Downgrades
- Additional Costs due to Rating Downgrades
- Summary

Total Debt Outstanding
$5.0 Billion



General Obligation Bonds

Fixed Rate Water Revenue Bonds

Variable Rate Swapped to Fixed Rate

Variable Rate Water Revenue Bonds (including SIFMA Index Notes)

Rating Agency Investment Grade Ratings

Moody's	Standard and Poor's	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	Baa+	Baa+
Baa2	Baa	Baa
Baa3	Baa-	Baa-

Basis for Metropolitan's Ratings

- Essential service provider to a large and economically diverse service area
- Strong and experienced management team
- Demonstrated willingness and ability to implement water rate increases
- Well managed financial operations with financial policies, reserve balances, and financial ratios at levels generally consistent with high grade credit ratings
- A record of successfully completing and managing a large and diverse capital program

Benefits of Strong Credit Rating

- Market access
- Greatest ability and flexibility to utilize lower costing financial products (with associated risks)
  - Variable Rate Debt Obligations
  - SIFMA Index Notes
  - Interest Rate Swaps
- Lower financing costs of the capital program

Potential Impacts of a Hypothetical Bond Rating Downgrade

(from “AAA” to “AA” category)

- Higher interest rates
  - future fixed rate debt issues
  - current and future variable rate debt obligations
- Additional fees for existing liquidity facilities
- Increased costs for liquidity facility renewals
- Swap Portfolio: increase in collateral posting amount and frequency
- Credit impact to other agencies?

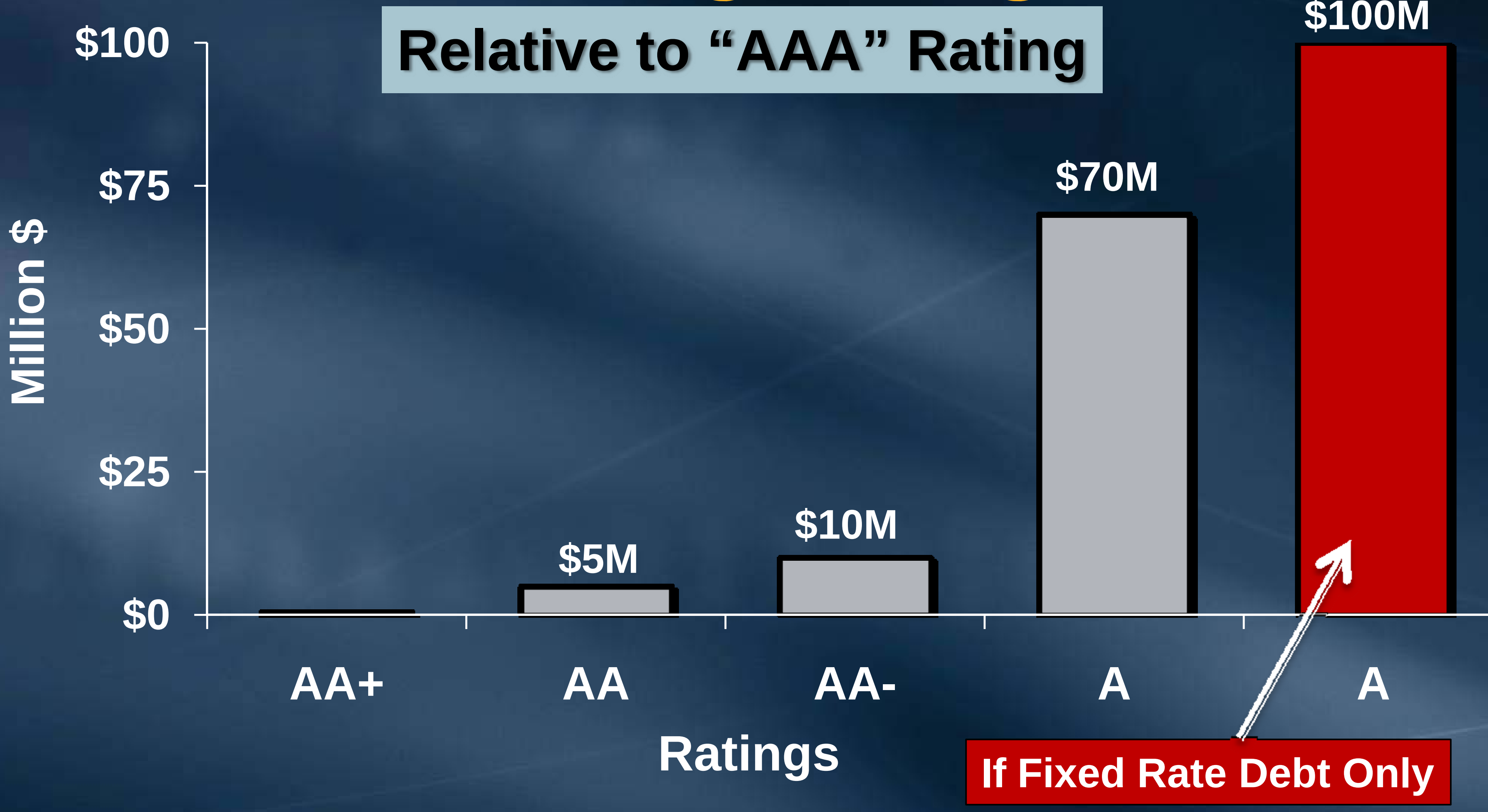
Potential Impacts of a Hypothetical Bond Rating Downgrade

(from "AA" to "A" category)

Same impacts as downgrade to AA category, <u>and</u>

- Loss or reduced access to capital markets resulting in additional financing costs
  - could lose ability to use low cost products (e.g., variable rate debt; SIFMA Index Notes)
  - may need to refund existing variable rate debt with fixed rate debt
  - future debt issues may be limited to fixed rate debt
- Reduced access to interest rate swap market
  - potential swap termination payments
- Will impact credit ratings of other agencies

Additional Annual Costs due to Rating Downgrades



Summary

- Metropolitan's strong credit rating has provided significant benefits
  - market access
  - low cost financial products
  - flexibility in funding the capital program
- Metropolitan will be negatively impacted by a credit rating downgrade
  - higher cost funding of capital program
  - will likely result in higher water rate increases
- Generally, if downgraded, it will potentially take five to ten years for upgrade consideration