THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: June 13, 2011

To: Finance and Insurance Committee

From: Thomas E. DeBacker, Interim Chief Financial Officer

Subject: Water Revenue Refunding Bonds (Index Mode), 2011 Series A1-A4

On June 2, 2011, Metropolitan closed a $228.9 million water revenue refunding bond issue to refund $231.9 million of outstanding water revenue bonds. The 2011 Series A1-A4 bonds were issued as variable rate SIFMA Index Notes, and allowed Metropolitan to eliminate bank liquidity support for $200 million of variable rate water revenue bonds and to realize cost savings.

The all-in true interest cost (TIC) for the SIFMA Index Notes is estimated to be 1.83 percent. Total debt service is estimated at $318.0 million with a net present value savings of $26.3 million. The SIFMA Notes have a 25-year life with final maturity on July 1, 2036. The average life of the bonds is 21.6 years.

The refunded bonds include the $200 million Water Revenue Bonds, 2001 Series C1-C2 issue and $31.9 million of the 2001 Series A issue. The 2001 C1-C2 bonds are variable rate demand obligations supported by a standby bond purchase agreement with Lloyds Bank (Metropolitan's highest costing liquidity facility that was set to expire in December 2011). As noted above, this liquidity facility has been terminated. The 2001 Series A bonds are fixed rate bonds with interest rates ranging from 4.5 percent to 5.15 percent.

Morgan Stanley and Barclay's Capital served as underwriters for the offering. The 2011 Series A1-A4 SIFMA Notes included one-year and two-year mandatory tenders as follows:

	One-Year	Two-Year	Total
Morgan Stanley	$ 64.5 million	$ 50 million	$ 114.5 million
Barclay's Capital	$ 64.4 million	$ 50 million	$ 114.4 million
	$ 128.9 million	**$ 100 million**	**$ 228.9 million**

<u>One-Year</u>

$128.9 million of one-year SIFMA notes were placed with a spread to the SIFMA Weekly Index (20 basis points at pricing) of plus 2 basis points, for an initial interest rate of 0.22%. Six investors received a portion of the one-year SIFMA Index Note offering. Of significance, Metropolitan was able to increase the investor participation level for the one-year SIFMA Index Note product.

Two-Year

$100 million of two-year SIFMA notes were placed with a spread to the SIFMA Weekly Index (20 basis points at pricing) of plus 15 basis points, for an initial interest rate of 0.35%. Ten investors received a portion of the two-year SIFMA Index Note offering. Of significance, Metropolitan was able to access a new market for the first time (through the two-year tender) thereby further diversifying its investor base for the SIFMA Index Note product.

The variable rate SIFMA Index Notes were structured as long-term bonds with interest rates set on a weekly basis. As with Metropolitan's 2009 Series A1-A2 SIFMA Index Notes, the 2011 Series A1-A4 SIFMA Index Notes have an optional call feature six months prior to the mandatory tender dates to ensure that the bonds will be remarketed at an attractive price to Metropolitan, and to provide Metropolitan financial flexibility in the unlikely event that a remarketing is not successful. With the issuance of the 2011 Series A1-A4 SIFMA Index Notes, Metropolitan has approximately $437 million of its $1.7 billion variable rate debt portfolio as SIFMA Index Notes.

The refunded 2001 Series C-1 issue had an associated interest rate swap that is "deemed terminated" for accounting purposes. As a result, approximately $2.9 million will be written off on Metropolitan's accrual based income statement, on a level annual basis, through July 1, 2036. There is no cash impact from this transaction.

Public Resources Advisory Group (PRAG) served as financial advisor. Nixon Peabody LLP and Curls Bartling P.C. served as co-bond counsel.

As requested by the committee, and consistent with past practice, we have provided the following breakdown of the estimated costs and expenses associated with the $228.9 million Water Revenue Refunding Bonds, 2011 Series A1-A4 issue:

	Amount	$/1,000 Bond
Estimated Costs:		
Rating Agencies	$ 165,000	$ 0.72
Co-Bond Counsel	123,000	0.54
Financial Advisor	70,000	0.31
Printing/Mailing	10,000	0.04
Other/Contingency	22,000	0.09
	390,000	1.70
Underwriter's Discount:		
Takedown (sales fees)	411,094	1.80
Management Fee	50,000	0.22
Expenses:		
Underwriters Counsel	50,000	0.22
Other (e.g. Dalcomp, CUSIP, DTC, etc.)	17,006	0.07
	528,100	2.31
Total Costs of Issuance	$ 918,100	$ 4.01