THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: July 11, 2011

To: Finance and Insurance Committee

From: Thomas E. DeBacker, Interim Chief Financial Officer

Subject: Water Revenue Refunding Bonds, 2011 Series B

On June 8, 2011, Metropolitan priced the $167.9 million Water Revenue Refunding Bonds, 2011 Series B issue to realize cash flow savings and to mitigate bank risks associated with a portion of Metropolitan's variable rate debt program. The transaction closed on June 30, 2011.

The 2011 Series B Water Revenue Refunding Bonds were issued to refund the remaining $73.0 million of the 2001 Series A fixed rate water revenue bonds, $96.9 million of the 2008 Series A1 and Series A2 variable rate water revenue bonds, and to pay off an $11.3 million State Revolving Fund Loan. The 2008 Series A1-A2 bonds are variable rate water revenue bonds supported by standby bond purchase agreements with Bank of America and Barclays Bank.

The Water Revenue Refunding Bonds, 2011 Series B issue are traditional fixed rate tax-exempt bonds with an all-in true interest cost of 1.13 percent and an average life of 3.2 years. Savings are estimated to be about $1.1 million per year, or $10.8 million on a net present value basis. The 2011 Series B bonds were issued with a premium of $14.9 million. Average annual debt service for the bonds will be $18.8 million, and total debt service will be $188.4 million with bonds maturing from July 2012 to July 2020.

Morgan Stanley served as senior manager for the financing, with Bank of America/Merrill Lynch; Citi; De La Rosa & Co.; Goldman, Sachs & Co.; Ramirez & Co., Inc.; and Stone & Youngberg comprising the remainder of the underwriting team.

Public Resources Advisory Group (PRAG) served as financial advisor. Fulbright & Jaworski L.L.P. 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 $167.9 million Water Revenue Refunding Bonds, 2011 Series B issue:

Water Revenue Refunding Bonds, 2011 Series B

Estimated Costs:

	Amount	$/1,000 Bond
Rating Agencies	$ 95,453	$ 0.57
Co-Bond Counsel	88,000	0.53
Financial Advisor	65,000	0.39
Printing/Verification/Escrow	17,500	0.10
Other/Contingency	14,047	0.08
Total	**$ 280,000**	**$ 1.67**

Underwriter's Discount:

	Amount	$/1,000 Bond
Takedown (sales fees)	$ 445,100	$ 2.65
Management Fee	25,000	0.15
Expenses		
- Underwriters Counsel	25,000	0.15
- Other (e.g. Dalnet, DTC, CDIAC, etc.)	29,108	0.17
Total	**$ 524,208**	**$ 3.12**
Total Costs of Issuance	**$ 804,208**	**$ 4.79**

Attachment 1

Savings from Water Revenue Refunding Bonds

Since February 2001, Metropolitan has issued over $3.77 billion of water revenue refunding bonds, with estimated savings over $275 million on a present value basis and at least $17.7 million per year (on average) over the next 20 years. This equates to approximately $10 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	N/A (a)	N/A (a)	N/A (a)	9.6 years
2007 Series B	$ 81.9M	N/A (a)	N/A (a)	N/A (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
2009 Series A1-A2 (d)	$208.4M	$30.6 million	$2.0 million	2.62%	16.3 years
2009 Series B (e)	$106.7M	N/A	N/A	4.44%	16.3 years
2009 Series C (f)	$ 91.2M	N/A	N/A	4.97%	23.3 years
2009 Series D (g)	$ 81.1M	N/A	N/A	3.07%	8.1 years
2009 Series E (h)	$ 26.1M	N/A	N/A	2.59%	6.8 years
2010 Series A (i)	$128.0M	N/A	N/A	3.14%	9.2 years
2010 Series B (j)	$ 88.8M	N/A	N/A	3.25%	10.7 years
2011 Series A1-A4 (k)	$228.9M	$26.3 million	$1.4 million	1.83%	21.6 years
2011 Series B	$167.9M	$10.8 million	$1.1 million	1.13%	3.2 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%.

(d) Issued SIFMA Index Notes to refund the 2003 C1-C2 variable rate water revenue bonds secured by a liquidity facility with Dexia. The bonds were refunded to eliminate higher interest rates due to any future credit downgrades of Dexia; to eliminate the need and exposure to rising costs for liquidity facilities; to eliminate put risk to Metropolitan which could lead to higher costing bank bonds; and to offer bonds into the marketplace that will trade solely on the basis of Metropolitan's credit rating.

(e) Issued fixed rate water revenue bonds to refund the 2003 C3 variable rate water revenue bonds secured by a liquidity facility with Dexia. The bonds were refunded to eliminate higher interest rates due to any future credit downgrades of Dexia; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk to Metropolitan which could lead to higher costing bank bonds.

(f) Issued fixed rate water revenue bonds to refund the 2000 B-1 variable rate water revenue bonds secured by a liquidity facility with WestLB. The bonds were refunded to eliminate higher interest rates due to any future credit downgrades of WestLB; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk to Metropolitan which could lead to higher costing bank bonds.

(g) Issued fixed rate water revenue bonds to refund the 2002 A variable rate water revenue bonds secured by a liquidity facility with LBBW. The bonds were refunded to eliminate higher interest rates due to any future credit downgrades of LBBW; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk to Metropolitan which could lead to higher costing bank bonds.

(h) Issued fixed rate water revenue bonds to refund the 2002 B variable rate water revenue bonds secured by a liquidity facility with Lloyds Bank. The bonds were refunded to take advantage of a historically low interest rate market; to eliminate higher interest rates due to any future credit downgrades of Lloyds; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk to Metropolitan which could lead to higher costing bank bonds.

(i) Issued to refund the 2004C variable rate water revenue bonds secured by a liquidity facility with Dexia. The bonds were refunded to eliminate higher interest rates due to any future credit downgrades of Dexia; to eliminate the need and exposure to rising costs for liquidity facilities; to eliminate put risk to Metropolitan which could lead to higher costing bank bonds; and to offer bonds into the marketplace that will trade solely on the basis of Metropolitan's credit rating. Metropolitan's first issuance of Special Variable Rate Water Revenue Refunding Bonds supported by Metropolitan's own liquidity and balance sheet in lieu of a third party bank liquidity facility (authorization: 19th Supplemental Resolution to the Master Revenue Bond Resolution).

(j) Issued fixed rate water revenue bonds to refund the 2005 B1-B2 variable rate water revenue bonds secured by a liquidity facility with Citibank. The bonds were refunded to take advantage of a historically low interest rate market; to eliminate higher interest rates due to any future credit downgrades of Citibank; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk to Metropolitan which could lead to higher costing bank bonds.

(k) Issued SIFMA Index Notes to refund the 2001 C1-C2 variable rate water revenue bonds secured by a liquidity facility with Lloyds Bank. The bonds were refunded to eliminate Metropolitan's highest costing liquidity facility; to eliminate the need and exposure to rising costs for liquidity facilities; to eliminate put risk to Metropolitan which could lead to higher costing bank bonds; and to offer bonds into the marketplace that will trade solely on the basis of Metropolitan's credit rating. Savings are estimated to be approximately 35 basis points per year given cost estimates associated with re-pricing of the SIFMA Index Notes, the estimated spreads to the SIFMA Index, and re-pricing costs net of avoided fees for liquidity facilities, remarketing fees, and the variable rate differential between the SIFMA Index Notes and VRDNs. In addition, a portion of the 2001 Series A fixed rate water revenue bonds were refunded to realize NPV cost savings of approximately $13.3 million.

Thomas E. DeBacker