THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: May 7, 2012

To: Finance and Insurance Committee

From: Gary M. Breaux, Assistant General Manager/Chief Financial Officer

Subject: Water Revenue Refunding Bonds (Index Mode), 2012 Series B1-B2

On April 24, 2012, Metropolitan priced the $98.6 million Water Revenue Refunding Bonds, 2012 Series B1-B2 issue to refund the Water Revenue Bonds 1999 Authorization, Series B and Series C issues. The transaction closed on April 27, 2012.

The 2012 Series B1-B2 bonds were issued as SIFMA Index Notes with a three-year scheduled mandatory tender, and will allow Metropolitan to eliminate the need for bank liquidity support for $100 million of variable rate water revenue bonds and to realize cost savings. The three-year SIFMA notes were placed with a spread to the SIFMA Weekly Index of plus 35 basis points. With this financing, Metropolitan continued to access and expand 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 and A2 SIFMA Index Notes and the 2011 Series A1-A4 SIFMA Index Notes, Metropolitan has an optional call feature on the SIFMA Notes six-months prior to the mandatory tender date to ensure that the bonds will be remarketed at an attractive price to Metropolitan, and to allow Metropolitan financial flexibility in the unlikely event that a remarketing is not successful. With the issuance of the 2012 Series B1-B2 SIFMA Index Notes, Metropolitan now has approximately $536 million of its $1.7 billion variable rate debt portfolio as SIFMA Index Notes.

BofA Merrill Lynch served as underwriter for the transaction. Public Resources Advisory Group served as financial advisor. Nixon Peabody LLP and Curls Bartling P.C. served as co-bond counsel.

The all-in true interest cost (TIC) for the SIFMA Notes is estimated to be 1.86 percent with an average life of 13.2 years. Average annual debt service for the 2012 Series B1-B2 bonds is estimated to be $8.0 million, and total debt service is estimated to be $122.0 million with bonds maturing from July 2023 to July 2027.

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 $98.6 million Water Revenue Refunding Bonds, 2012 Series B-1 and Series B-2 issue:

Water Revenue Refunding Bonds, 2012 Series B1-B2

Estimated Costs:

	Amount	$/1,000 Bond
Rating Agencies	$ 92,000	$ 0.93
Co-Bond Counsel	115,500	1.17
Financial Advisor	67,500	0.69
Printing/Other	25,000	0.25
Total	**$ 300,000**	**$ 3.04**

Underwriter's Discount:

	Amount	$/1,000 Bond
Takedown (sales fees)	$ 246,463	$ 2.50
Expenses		
- Underwriters Counsel	25,000	0.25
- Other (e.g. DTC, CDIAC, order system, etc.)	9,918	0.10
Total	**$ 281,381**	**$ 2.85**
Total Costs of Issuance	**$ 581,381**	**$ 5.89**

A breakdown of the savings from Water Revenue Refunding Bonds is attached (Attachment 1).

Attachment 1

Savings from Water Revenue Refunding Bonds

Since February 2001, Metropolitan has issued over $4.20 billion of water revenue refunding bonds, with estimated savings over $309 million on a present value basis and at least $20.0 million per year (on average) over the next 20 years. This equates to approximately $12 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
2011 Series C	$157.1M	$11.8 million	$0.8 million	3.15%	12.3 years
2012 Series A	$181.2M	$21.8 million	$1.3 million	3.48%	18.1 years
2012 Series B1-B2 (l)	$ 98.6M	$ 1.2 million	$ .2 million	1.86%	13.2 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.

(l) Issued SIFMA Index Notes to refund the 1999 Authorization, Series B and Series C variable rate water revenue bonds secured by a liquidity facilities with Bank of America and JPMorgan. The bonds were refunded to eliminate the cost for the liquidity facilities; 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 15 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.