THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: July 9, 2012

To: Finance and Insurance Committee

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

Subject: Water Revenue Refunding Bonds, 2012 Series C, 2012 Series D, 2012 Series E and Interest Rate Swap Terminations

On June 20, 2012, Metropolitan priced the $190.6 million Water Revenue Refunding Bonds, 2012 Series C issue, the $39.5 million Water Revenue Refunding Bonds, 2012 Series D (taxable) issue, and the $89.5 million Water Revenue Refunding Bonds, 2012 Series E issue to refund various series of Water Revenue Bonds that were originally issued in 2004, 2006, 2008, and 2010. In addition, approximately $47.2 million of bond proceeds were used to pay swap counterparties to terminate two interest rate swaps and to partially terminate five interest rate swap transactions. The transaction closed on June 28, 2012.

As presented at the May 2012 and June 2012 meetings of the Finance and Insurance Committee, Metropolitan benefited from a unique opportunity in the interest rate swap market and the municipal bond market. Fixed rate municipal bonds were a lower cost alternative than utilizing the interest rate swap market (through 2021). Metropolitan was able to issue low cost fixed rate water revenue refunding bonds and use the proceeds to refund various series of variable rate water revenue bonds, pay for unwinding certain interest rate swaps associated with the bonds, and realize economic savings while reducing certain risks associated with the variable rate debt portfolio and the interest rate swap portfolio. In addition, the refunding enabled Metropolitan to lock-in the original savings anticipated from the prior bond refundings and associated interest rate swap transactions thereby providing economic certainty over the remaining life of the refunding transactions.

Goldman Sachs served as senior manager and underwriter for the 2012 Series C and 2012 Series E transactions, with Morgan Stanley as co-senior manager. Citigroup Global Markets Inc., De La Rosa & Co., Ramirez & Co., and Siebert Brandford Shank & Co. served as co-managers. Barclays Capital served as senior manager and underwriter for the 2012 Series D transaction, with Siebert Brandford Shank & Co. as co-senior manager. Public Resources Advisory Group (PRAG) served as financial advisor, Swap Financial Group served as swap advisor, Fulbright & Jaworski L.L.P. and the Law Offices of Alexis S. M. Chiu served as co-bond counsel.

The true interest cost (TIC) for the transaction was 1.15 percent; the all-in true interest cost (including expenses and the swap termination payments) was 4.84 percent with an average life of 4.7 years. Savings are estimated to be about $119,000 per year on average, or $1.19 million over the life of the bonds, which is $1.05 million on a net present value basis. Average annual debt service for the 2012 Series C, D, and E bonds will be $42.7 million, and total debt service will be $384.8 million. The 2012 Series C and 2012 Series D bonds have maturities from January 2013 to July 2021. In addition, the 2012 Series E bonds are tax-exempt “Put Bonds” with fixed interest rates for an initial period from July 2014 to July 2016, at which time Metropolitan will be required to convert the Put Bonds to another authorized variable rate or fixed rate bond mode.

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 $319.6 million Water Revenue Refunding Bonds, 2012 Series C, 2012 Series D, and 2012 Series E issues:

Estimated Costs:

	Amount	$/1,000 Bond
Co-Bond Counsel	$300,000	$ 0.94
Financial / Swap Advisors	277,691	0.87
Rating Agencies	219,125	0.69
Printing/Verification/Escrow	13,000	0.04
Other	10,184	0.03
Total	**$ 820,000**	**$ 2.57**

Underwriter's Discount:

	Amount	$/1,000 Bond
Takedown (sales fees)	$1,051,125	$ 3.29
Expenses		
- Underwriters Counsel	50,000	0.16
- Other (e.g. DTC, CDIAC, DalComp, etc.)	55,966	0.17
Total	**$1,157,091**	**$ 3.62**
Total Costs of Issuance	**$1,977,091**	**$ 6.19**

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 $4.52 billion of water revenue refunding bonds, with estimated savings over $310 million on a present value basis and at least $20.1 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
2012 Series C-D-E (m)	$319.6M	$ 1.1 million	$ .1 million	1.15%	4.7 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.

(m) Issued tax-exempt (including Put Bonds) and taxable water revenue refunding bonds to refund variable rate water revenue bonds (associated with various interest rate swaps) and to provide funding for swap terminations ($47.2M). Two swaps were terminated, and five swaps were partially terminated. Savings were calculated assuming the fixed swap rate + 60 basis points for remarketing and LOC fees. For variable rate bonds associated with the 2001B interest rate swap, additional costs of 20 basis points were included in the calculation (as recognition of basis mismatch). If the swap termination payments are included in the calculation, the all-in TIC is 4.84%.