THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

- Board of Directors
  Finance and Insurance Committee

8/20/2013 Board Meeting

8-5

Subject

Approve repayment of Metropolitan's portion of the Hoover Dam Visitor Center Loan and the Hoover Dam Air Slots Loan with the United States Treasury

Executive Summary

This action authorizes the repayment of Metropolitan's portion of the Hoover Dam Visitor Center Loan and Hoover Dam Air Slots Loan. Metropolitan is one of 15 power contractors that receive and pay for their respective allocation of power from Hoover Dam. The long-term debt obligations under these existing loans were financed at interest rates that are significantly higher than present market interest rates and are currently paid by the contractors as part of the monthly billings for Hoover power. The repayment of the loans by the 15 contractors would result in significant cost savings. Under this repayment, it is expected that Metropolitan would reduce its annual payment for Hoover power by approximately $2.3 million.

Details

At Hoover Dam, the annual operations and maintenance and capitalized costs are incorporated into the federal power rates that are used to bill the agencies that have contractual rights to Hoover power. As one of 15 power contractors, Metropolitan pays its proportionate share of these costs in its monthly payments for Hoover power. The monthly billings include Metropolitan's proportionate share of the debt financing costs for construction of the Hoover Dam Visitor Center and for the installation of air inlets or "slots" for the spillways at Hoover Dam.

The larger of the two debt obligations is for the Hoover Dam Visitor Center. The construction of the Visitor Center and parking structure at the dam was approved in the legislation that authorized the current power sale contracts that started in 1987, and the construction was funded by federal appropriations. When the Visitor Center was opened in 1995, the construction cost was capitalized over a 50-year period. Currently, there is an outstanding debt balance for all 15 power contractors of approximately $114.3 million at an interest rate of 8.06 percent with a final maturity of 2045. The 8.06 percent interest rate for the loan is significantly higher than current market interest rates.

The second debt obligation is for the installation of air slots for the spillways at Hoover Dam. In 1983, unexpected precipitation and runoff caused Lake Mead to rise over four feet above the spillway gates causing the release of large volumes of water. The uncontrolled flows produced turbulence in the spillways resulting in damage to the concrete lining. Air slots were cut into the spillways to allow for the inflow of air that would reduce turbulence and the resulting damage. The work was completed in 1987, and the construction cost was capitalized for a 50-year period. Currently, there is an outstanding balance for all 15 power contractors of approximately $9.7 million at an interest rate of 9.84 percent with a final maturity of 2037. The 9.84 percent interest rate for the loan is significantly higher than current market interest rates.

With the passage of the Hoover Power Allocation Act of 2011, the existing power contractors were provided an allocation of Hoover power of at least 95 percent of their current entitlement for an additional 50 years once the present contract expires in 2017. Given the assurance of continued access to Hoover power, and historically low interest rates, the Hoover contractors (including Metropolitan) began discussing the possibility of prepaying the

high interest rate debt at Hoover Dam. The federal government has stated it would allow prepayment of the debt if the entire debt obligation was repaid. The federal government will not accept a partial prepayment of the debts from a limited group of contractors.

Of the 15 contractors, five (the Colorado River Commission-Nevada; Metropolitan; Los Angeles Department of Water and Power; Arizona Power Authority; and Southern California Edison) have over 91 percent of the allocation of the power generated at Hoover. Metropolitan's allocation is approximately 21 percent of the power generated from Hoover Dam, therefore Metropolitan is responsible for nearly $26 million of the combined debt of $124 million for the two debt obligations. The total annual payment for this debt is approximately $11 million through 2045 for all of the Hoover contractors, with Metropolitan's share at $2.3 million per year.

Since current market interest rates are significantly lower than the interest rates for the two debt obligations, there is sufficient interest and commitment from all 15 power contractors that the prepayment of the high interest rate debt at Hoover Dam should be pursued, and is likely to occur. The states of Arizona and Nevada recently passed legislation allowing the state entities responsible for their use of Hoover power to issue debt for a refinancing. However, before Arizona and Nevada commit to the cost of issuing new debt, they have requested assurance that all other contractors will provide their share of the necessary funds for the prepayment. The other contractors expect to repay their share of the debt obligations from available cash. To satisfy the request that contractors express their intention to provide their share of the debt prepayment obligation, a nonbinding Memorandum of Understanding is being drafted.

Metropolitan's options include repaying its share of the combined debt obligation (approximately $26 million) from available cash or by issuing taxable bonds for funding the repayment. Under federal tax rules, Metropolitan would not be able to issue tax-exempt bonds to fund the repayment. A taxable refinancing would be a higher cost alternative, as taxable interest rates are higher than the interest rates for a tax-exempt financing.

Net present value (NPV) savings to Metropolitan by cash funding the repayment would be approximately $11.5 million, which would effectively eliminate Metropolitan's annual payment obligation of $2.3 million. NPV savings to Metropolitan by issuing taxable bonds would be approximately $8.2 million. Staff is recommending that the Board approve a cash repayment for the Hoover Dam Visitors Center and the Hoover Dam Air Slots debt.

Policy

Metropolitan Water District Administrative Code Section 2431(i): Duties and Functions of the Engineering and Operations Committee; Energy matters in general.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2: The proposed action is not defined as a project under CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to the provisions of CEQA pursuant to Sections 15378(b)(4) and 15061(b)(3) of the State CEQA Guidelines.

CEQA determination for Option #3: None required.

Board Options

Option #1

Adopt the CEQA determination that the proposed action is not subject to CEQA and

a. Authorize the General Manager to sign a nonbinding Memorandum of Understanding stating Metropolitan's intention to pay its proportionate share of the Hoover Dam Visitors Center and the Hoover Dam Air Slots debt obligations, as approved by the General Manager and General Counsel; and
b. Authorize the General Manager to provide approximately $26 million of available cash funding from the Water Rate Stabilization Fund to repay Metropolitan's proportionate share of the Hoover Dam Visitors Center and the Hoover Dam Air Slots debt obligations. The exact amount will be determined at the time of the repayment.

Fiscal Impact: Metropolitan will reduce its annual payment for Hoover power by approximately $2.3 million and realize approximately $11.5 million of Net Present Value savings.

Business Analysis: Approval will reduce future payments for Hoover power.

Option #2

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to sign a nonbinding Memorandum of Understanding stating Metropolitan's intention to pay its proportionate share of the Hoover Dam Visitors Center and the Hoover Dam Air Slots debt obligations, as approved by the General Manager and General Counsel.

Fiscal Impact: Metropolitan will reduce its annual payment for Hoover power by approximately $2.3 million and realize approximately $8.2 million of Net Present Value savings if taxable bonds are authorized to be issued to finance the repayment.

Business Analysis: Approval will reduce future payments for Hoover power. The Board would consider adopting a resolution authorizing issuance of taxable bonds at a future meeting.

Option #3

Do not adopt the CEQA determination and do not approve funding to repay Metropolitan's proportionate share of the Hoover Dam Visitors Center and the Hoover Dam Air Slots debt obligations, thereby foregoing reductions in future payments for Hoover power for Metropolitan as well as for all other Hoover power contractors.

Staff Recommendation

Option #1

8/7/2013
Gary Breaux *Date*
Chief Financial Officer

8/7/2013
Jeffrey Kightlinger *Date*
General Manager

Ref# cfo12625986