

WEST BASIN MUNICIPAL WATER DISTRICT

MARCH 7, 2005 - Finance

Fernandez, Dear

MARCH 21, 2005 - Board Meeting

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INFORMATION CALENDAR

FINANCING OPPORTUNITY FOR REFUNDING THE 1997A REVENUE BONDS

SUMMARY:

In fiscal year 2003-04, West Basin was active in refunding several of its outstanding debt. In general a refunding occurs in order to:

- Restructure an entity's debt portfolio;
- Update bond covenants; and/or
- To achieve savings.

Each refunding that West Basin undertook not only updated the bond covenants, particularly as it relates to variable rate debt, but also achieved savings during this low interest rate environment. In addition, the 2003B and 2004A refundings restructured the debt portfolio by migrating debt associated with individual projects to the subordinate lien, while debt associated with system wide capital projects moved to the senior lien.

This restructuring between senior and subordinate liens also created additional capacity. The additional capacity along with the updated bond covenants, are necessary and important steps as West Basin anticipates future potential expansion in a few years.

During fiscal year 2003-04, a proposal to refund the 1997A Revenue Bonds was also addressed by the District's financial advisor, Public Financial Management (PFM). PFM concluded at that time that although West Basin would update its bond covenants, West Basin would not achieve appropriate assumed savings.

PFM reviewed an updated proposal (dated February 16, 2005) from Citigroup to refund the 1997A debt. The market conditions are appropriate at this time to reconsider a refunding opportunity. The 1997A debt refunding proposal offers some unique considerations, as the refunding does not qualify as current refunding bonds (bonds that are called within 90 days of the issuance of the refunding bonds) or advance refunding bonds (bonds that are called more than 90 days of issuance and may only be exercised one time). The 1997A bonds had previously been West Basin's portion of the 1992 bonds. The 1997 Bonds are callable in 2007.

In question is how to refund the 1997A debt. The Citigroup proposal offers two options:

Option I

Refund the 1997A debt by issuing auction rate securities and also enter into a fixed interest rate swap (similar to the 2004A debt). However, the debt issued between today and the callable date of August 1, 2007 would be taxable. After August 2007, the

District would convert the bonds to tax exempt. As of February 16, 2005 assumed achieved savings is approximately 7%.

Option II

Refund the 1997A debt through a forward synthetic refunding. Translated, the District would agree to issue variable rate bonds on the call date of August 1, 2007. In addition, the District would execute a fixed rate swap today that would begin August 1, 2007.

PFM recommends proceeding forward with Option II. This option would achieve savings around 10%, update the remaining legal provisions to current bond covenants as it relates to variable rate debt and increase the District's debt capacity.

PFM will be present at the March 7, 2005 Finance Committee to discuss the refunding and recommendations on the options.

FISCAL IMPACTS:

The District could potentially realize 7-10% present value savings, update bond covenants, and continue to increase the District's debt capacity. In the current market the expected savings would total approximately \$2.8 million or \$1.9 million on a present value basis.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Finance Committee on March 7, 2005. The Committee requested that staff provide the costs associated with the refunding and that PFM proceed with Option II. The Committee reviewed this item and agendized to the March 21, 2005 Board meeting as information for discussion.

RECOMMENDED MOTION:

This item is for information only.