



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – February 5, 2007

DATE: February 6, 2007

A meeting of the Finance Committee was held on February 5, 2007, at the SCPPA office in Pasadena.

Committee members in attendance were: Acting Chairman Craig Koehler (*SCPPA*); Mark Mazak (*Anaheim*); Bob Liu (*Burbank*); Ruwen Liu (*Glendale*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside*).

Others present were: Stephen Cole (*Fulbright & Jaworski*); Dan Hartman and William Frymann (*Public Financial Management*); Peter Huynh (*LADWP/SCPPA*); and Richard Helgeson (*SCPPA*).

1. Investment Reports

The Committee reviewed the Investment Reports for December 2006 and for the period ending December 31, 2006, and agreed to forward the reports to the Board for receipt and filing.

2. Letter of Credit Extension – 1991 STS Bonds

SCPPA currently has eight outstanding variable rate or auction rate bond issues, which are spread across several projects. Five of the eight issues are VRDO's and have either a Letter of Credit or a Liquidity Facility. Only the 1991 bonds have a Letter of Credit, and the remaining four issues have Liquidity Facilities and Bond Insurance. The Committee considered a request by AIG to extend the Letter of Credit for the 1991 Southern Transmission System Bonds, and recommended a two year extension from the current expiration of December 31, 2010.

3. Update on Mead-Adelanto CMS Pricing

PFM provided a summary of the results of the pricing call in connection with the Mead-Adelanto Constant Maturity Swap. SCPPA's Mead - Adelanto Constant Maturity Swap was successfully priced with Bear Stearns Financial Products on January 31, 2007. The \$100 million notional swap will have a one-year forward starting date of February 1, 2008 and will terminate September 15, 2030. SCPPA will receive 10-Year LIBOR less approximately 41.1 bps in exchange for 100% of a 1-Month LIBOR. The pricing level was in line or better than prior indications, and included all fees paid to Bear Stearns (at the competitively bid spread of 1.25 bps), PFM and Fulbright (including \$10,000 paid by Bear Stearns

for the development of legal documents). Assuming that SCPPA Mead - Adelanto CMS swap performs as anticipated, the resulting savings and expected swap benefit would be approximately 130 bps or \$1.3 million per annum. The gross savings are expected to be \$22.2 million and the PV savings are expected to be \$14.6 million, or 14.6%. PFM will issue its fair market opinion in connection with the trade.

Immediately following the SCPPA Finance Committee Meeting, the Magnolia Finance Committee met to discuss the following:

1. Update on 2006 Debt Service Reserve Account Investment Options

Certain investment contracts, such as guaranteed investment contracts (GIC's), are not expressly authorized in SCPPA's Investment Policy, and may be entered into only with approval of the Board. SCPPA wishes to enter into a GIC in connection with the Debt Service Reserve Account for the Magnolia Power Project A, Revenue Bonds, 2006-1. The GIC will be pursuant to the Request for Bids from Eligible Investment Providers. Bond Logistix will act on behalf of SCPPA as the structured products bidding agent for the GIC, at an agreed fee of \$7,500 that will be contingent upon and payable by the provider at the time of execution and delivery of the Investment Contract. The Committee recommended that the Board approve a resolution authorizing the execution and delivery of the Investment Contract in connection with the Debt Service Reserve Account for the Magnolia Power Project Revenue Bonds, Series 2006-1.

Following the Magnolia Finance Committee meeting, interviews were held to consider refunding proposals in connection with the Magnolia Power Project A Revenue Bonds, 2003-1. Four firms were selected for the interview process and included Bear Stearns, Merrill Lynch, UBS, and Citigroup. Two structures are under consideration: a Synthetic Fixed Rate Debt Using Regression Adjusted BMA Fixed Payer, and Index Floaters with Cost of Funds Swap. Currently, \$296.5 million of the 2003-1 Bonds are outstanding, of which \$202.4 million maturing 2023 through 2036 are under consideration.

The Magnolia Finance Committee Project A Participants have determined that it is in the best interest of the Authority to proceed with preparing all documents necessary or appropriate to sell and issue variable rate Magnolia Power Project A, Refunding Revenue Bonds, 2007-1, proceeds of which will be used to refund all or a portion of the Magnolia Power Project A, Revenue Bonds, 2003-1, appoint Citigroup as the underwriter for the Bonds, and to appoint Citigroup and Bear Stearns as the counterparties under the related interest rate swaps. The proposed \$213 million refunding are expected to generate in excess of \$20 million in savings, while not increasing tax risk and accounting work.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING WILL BE HELD
MONDAY, APRIL 2, 2007, AT 10:30 A.M. AT THE SCPPA OFFICE
THERE WILL BE NO MEETING IN MARCH TO COINCIDE WITH THE BOARD'S ABSENCE.**