



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – April 7, 2008

DATE: April 8, 2008

A meeting of the Finance Committee was held on April 7, 2008, at the SCPPA office in Pasadena.

Committee members in attendance were: Chairman Bill Carnahan (*SCPPA*); Ed Zacherl (*Anaheim*), Bob Liu (*Burbank*); Peggy Keigler (*Colton*); Dave Davis (*Glendale*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside*).

Others present were: Stephen Cole (*Fulbright & Jaworski*); Will Frymann and Dan Hartman (*Public Financial Management*); Therese Savery (*LADWP*); and Craig Koehler and Richard Helgeson (*SCPPA*).

1. Investment Report

The Committee reviewed the Investment Report for February 2008, and agreed to forward the report to the Board for receipt and filing.

2. General Market Update

The displacement of ARS rates began at the end of 2007 and the beginning of 2008, and grew in February as problems began to also spread to VRDOs. During March and April, VRDO and ARS problems have continued to persist. Bond insurers have continued to suffer from negative rating actions. Over the past two weeks, FGIC has been downgraded severely and MBIA has been downgraded by Fitch Ratings. Markets have continued to experience an unprecedented volatility over the past month and spreads between certain indexes have changed dramatically. Problems stemming from the subprime mortgage crisis, as well as bond insurer credit problems, have spurred some additional market developments that SCPPA should be aware of. The capital constraints on many investment banks continues, which limits their ability to underwrite variable rate or fixed rate bonds. It should also be noted that it is becoming more difficult for large fixed rate deals to get completed.

3. Southern Transmission Project Revenue Bonds, 2003 Series A, Current Refunding

The STS ARS refunding strategy is being implemented, and is proceeding as directed by the Finance Committee and as approved by the Board in March, as a fixed rate conversion of the 2003 ARS and termination of the associated interest rate swap with Citigroup. In addition, the suspension for several years of the JPMorgan 2004 Basis Swap and the 2006 CMS amendment is also being recommended to pay for costs of issuance and fees associated with the issuance of the 2008 refunding bonds.

JPMorgan was approved as the sole underwriter for the 2008 refunding bonds and adjustment of the takedown to \$3.50 per bond. Legal documentation is nearing completion and the Participant disclosure material is in development from Los Angeles, Anaheim, and Riverside. Not to exceed fees for PFM advisory and Fulbright Bond and Disclosure Counsel were approved by the Board at the March meeting, and were finalized by the Committee. Pricing is currently scheduled for May 1, with closing to follow approximately 30 days later.

4. Mead-Adelanto/Mead-Phoenix Project Revenue Bonds, 2004 Series A, Refinancing

PFM continues to believe that a VRDO structure with Aa3/AA- underlying ratings and lines of credit make the most sense for the Mead-Adelanto/Mead-Phoenix refinancing. This structure is expected to preserve more than 80% of the estimated savings from the 2004 refunding transaction. The rating process with Moody's and Fitch has been started. The Working Group continues to move forward, while the formula max rates on the 2004 ARS (175% of LIBOR) have limited the ARS reset rates to be under 4%, and all-in-costs are approximately 6% for the debt.

5. Magnolia Standby Bond Purchase Agreement (SBPA) Amendment with KBC Bank

PFM provided the Committee with an update of the temporary SBPA Amendment with KBC Bank in connection with the Magnolia Power Project A, Refunding Revenue Bonds, 2007-1. Under the temporary provisions, the KBC line of credit will be converted to an irrevocable line of credit that will be unaffected by the bond insurer ratings. The trading for the irrevocable line of credit should be in line with LOC-backed VRDOs. The documents are substantially complete and the SCPPA Board approval was completed in March. Rating agency approvals with Moody's and S&P are nearing completion, and both are expected to affirm the highest short-term ratings on the bonds. The current amendment covers only a period of one year, and to the extent the current market conditions continue past a year, SCPPA will devise an ongoing solution at that time. The pricing increment for the temporary period will be equal to 19 bps of the outstanding commitment of the bank. However, this amount can be recovered through additional escrow earnings, and therefore there is virtually no additional cost to SCPPA. The Committee recommended that the upfront fees of the bank and its counsel (approximately \$30,000) be charged to the Magnolia Power Project through the regular Monthly Power Cost billing.

The Committee received the proposed Magnolia Operating Agent Budget for fiscal year 2008/2009, and deferred the review and approval to the Operating Committee.

6. Palo Verde Project Revenue Bonds, 1996 Series B and C Series, Refinancing

PFM provided the Committee with an update of the refunding in connection with the Ambac-insured VRDO program for the Palo Verde Power Project Revenue Bonds, 1996 Subordinate Refunding Series B and 1996 Subordinate Refunding Series C. The Palo Verde VRDOs continue to trade at levels which are unfavorable relative to BMA/SIFMA and a refinancing with either fixed rate bonds or VRDOs backed by a Letter of Credit would reduce costs. The Palo Verde VRDOs are unhedged and the average rate on the 1996B and 1996C bonds is less than 2.25%. The shorter amortization of the Palo Verde Bonds provides for a more favorable fixed rate yield than other projects, and there are no swap termination considerations. There is no action to consider this month, as this will be taken up following the other financings.

7. **Gas Prepayment Project No. 2 (LADWP) Update**

The Committee received an update on the LADWP Gas Prepayment, Project No. 2. The Project #2 prepay continues to progress and is nearing approvals by the LADWP Board and SCPPA Board, respectfully.

The Gas Prepayment Project No.1 Participants were asked to forward their questions on reporting requirements to SCPPA, and SCPPA staff will follow-up with J. Aron & Company, the gas supplier.

8. **Milford Wind Corridor Phase I (UPC Wind) Prepayment Financing Update**

PFM provided the Committee with an update regarding the Milford Wind Corridor Phase I (UPC Wind) prepayment financing. The commercial operation target date is March 2009. The UPC financing will be complex, and SCPPA will need to begin the process in order to meet the required deadlines. Under the financing structure, SCPPA would issue tax-exempt bonds to finance an electric prepayment and a portion of the bond proceeds combined with the tax equity would be used to finance the purchase of the Project from the developer. Payment would not be made until the Commercial Operation Date of the Project.

9. **Unsolicited Proposals**

PFM reviewed one unsolicited proposal received from Citigroup in connection with renewable energy financings. The Committee recommended no action at this time.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, MAY 5, 2008, AT 10:30 A.M.
AT THE SCPPA OFFICE**