



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meetings of the SCPPA Finance Committee – October 6 and October 9, 2008

DATE: October 10, 2008

A meeting of the Finance Committee was held on October 6, 2008, at the SCPPA office in Pasadena, followed by a conference call October 9, 2008.

Committee members in attendance were: Acting Chairman Craig Koehler (*SCPPA*); Ed Zacherl (*Anaheim*); Bob Liu (*Burbank*)(*not present for call*); Peggy Keigler (*Colton*); Dave Davis (*Glendale*)(*not present for call*); Mario Ignacio (*LADWP*); Tunji Adedeji (*Pasadena*) (*not present for call*); and Jerry Rogers (*Riverside*).

Others present were: Stephen Cole, Cecilia Dyba (for call only) (*Fulbright & Jaworski*); Dan Hartman, Mike Berwanger and Will Frymann (*Public Financial Management*); Therese Savery (*LADWP*); and Richard Helgeson and Steve Homer (*SCPPA*) (*meeting only*).

1. Investment Report

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

2. STS Project Budget Comparison Report

The Committee reviewed the Annual Budget Comparison Report for the Southern Transmission System for the fiscal year ended June 30, 2008. Listed below is the net Authority Cost:

- Southern Transmission System Project: Approximately \$11.8M (12.85%) under budget

PFM recommended that the under billing be held for possible use in connection with the STS Upgrade to cover the first construction draw prior to completion of the financing. Any amounts used would be reimbursed to the participants from the bond proceeds.

3. Short-Term and Long-Term Market Update

PFM provided the Committee with an update of the current market issues. September was a historic month for the markets. Globally, banks have suffered from frozen markets, reduced liquidity, and declining ratings and stock prices. For the first time in 20 years, a money market (Reserve Primary) "broke the buck". Congress announced and subsequently passed a \$700 billion financial recovery package. Other market indicators have been grim and investors have shunned all risk. Both short and long-term municipal rates and spreads have increased, and taxable rates have decreased on the short-end and remained flat on the long-end. Financial entities have been under intense pressures in

September, with many financial institutions merging or being acquired by other firms. Over the past year, the changes in the financial counterparty landscape have been dramatic. A large portion of SCPPA's underwriting group has in some way or another exited the municipal businesses, with the loss of three firms: UBS, Lehman Brothers, and Merrill Lynch. Concerns over AIG and investment agreements and interest rate swaps have been resolved for now. All of SCPPA's agreements with AIG have been collateralized, thereby protecting SCPPA's investments with AIG should there be any further downgrade. There has been a comparative calm within the short-term note market and retail.

4. Mead-Adelanto/Mead-Phoenix 2008 Series Results

The Mead-Adelanto/Mead-Phoenix ARS refinancing was successfully completed with VRDOs initially marketed at a rate of 6.50% for the taxable bonds \$9,590,000 and 3.25% for the tax-exempt bonds \$136,140,000. The tax-exempt VRDOs were sold in daily mode and the taxable portion in weekly mode, which assisted in the marketing of the bonds. JPMorgan took all of the taxable bonds into inventory, but expects to find buyers in the coming weeks. The financing is expected to save roughly 75% of SIFMA when compared to the ARS, which were failing at a rate of 1.75% of SIFMA. SCPPA will continue to monitor the financing and maintains the option to fix out the bonds if the trading levels do not perform as anticipated.

5. STS Upgrade Financing

In light of Merrill Lynch's acquisition by Bank of America, Merrill is no longer able to offer the bridge loan product. A Request for Recommendations for STS Project Upgrade Financing was prepared and issued to SCPPA's underwriting team and other banks. The Committee reviewed the responses to the RFP and deliberated, recommending the selection of Morgan Stanley as the senior manager/book-runner, and Bank of America, JPMorgan, Siebert Brandford Shank, EJ De LA Rosa, and Citi as co-managers to assist in marketing the bonds. The Committee considered and recommended that the Board approve the following resolutions relating to the STS Upgrade: (i) approving the execution and delivery of the First Amendment to the STS Agreement between IPA and SCPPA, (ii) adoption of a reimbursement resolution, and (iii) authorization for the Working Group to commence work and appointment of the underwriters.

6. Canyon Power Project – Interim Financing Update

The Committee received an update in connection with Anaheim's interim financing facility for the purchase of turbines and other costs in connection with the Canyon Power Project. The Canyon Power Project financing, utilizing Bond Anticipation Notes (BANs), has a schedule targeting a December 2008 closing.

7. Tieton Hydro Power Purchase Project Financing Update

The Committee reviewed the responses to the Request for Proposals for underwriting in connection with Burbank and SCPPA's request to establish interim and long-term financing for the Tieton Hydroelectric Power Project. The Committee recommended Citi as the underwriter for the Tieton Power Project.

8. VRDO Update

PFM provided a status report and potential restructuring on existing variable rate debt. Auction rate troubles began in January with the first failed auctions, and spread to VRDO programs in February. Auction and variable rate problems persisted in March and April. Downgrades of MBIA and Ambac, and

Credit Watch notices for Assured Guaranty and FSA increased pressures in June and July. Trading dislocation remains dramatic and widespread. SCPPA has five variable rate series that were executed prior to 2008, and six variable rate series that were executed during 2008. Several SCPPA VRDO bond issues are of concern given the current market scenario.

STS

The STS 1991 VRDO Bonds are insured by Ambac and backed by a Lloyds TSB letter-of credit. They are hedged by a bond rate swap with AIG under which SCPPA pays a fixed rate of 6.38%. While the STS 1991 bonds have not particularly traded well over the past few months, SCPPA has not had to pay the added cost because those costs must be paid by AIG. With the integration between the AIG swap and the underlying bonds, SCPPA does not have the option to temporarily fix out the STS 1991 bonds. However, SCPPA does have the option to refinance with fixed rate bonds. While a fixed rate refinancing is feasible, there are significant considerations, including a large swap termination, existing reserve, and par-to-par restrictions. PFM recommended no action at this time and that SCPPA continue to carefully monitor the STS 1991 bonds.

The Series 1996B Bonds are unhedged and mature in 2023. PFM recommended that SCPPA take these bonds out with a fixed rate refunding and include as a separate series with the STS Upgrade. The Committee recommended JPMorgan be selected as the senior manager/bookrunner for the 1996B refunding, with co-managers of Morgan Stanley, Bank of America, Siebert Brandford Shank, EJ De La Rosa, and Citi as co-managers to assist in marketing the bonds. The Committee recommended that the Working Group begin work on the refunding and that Fulbright prepare the necessary resolution for approval at the October Board meeting.

The Series 2000 and 2001 Bonds are hedged by interest rate swaps and insured by FSA. The STS 2000 and STS 2001 Bonds have become or soon will become Bank Bonds. Morgan Stanley currently hold these bonds as Remarketing Agent. PFM recommended that SCPPA consider separately but concurrently proceed with a conversion to a different mode and will follow-up with additional information.

Magnolia

The Magnolia 2007 bonds are VRDOs hedged by interest rate swaps, insured by MBIA, with a line of credit from KBC that was recently amended to remove the automatic termination events. The Magnolia transaction has a SIFMA based swap that has lessened the impact for SCPPA due to the high SIFMA rates. Citi has had significant issues remarketing the Magnolia 2007 bonds and thus far \$1.2M of bonds have been put back to the bank. SCPPA could consider a number of different refinancing options for Magnolia, including fixed rate with swap termination, VRDO with a letter of credit, and short-term fixed rate note financing. The Committee recommended that PFM and Citi approach KBC regarding conversion of the line of credit to a LOC.

Palo Verde

PFM recommended that SCPPA maintain the Series 2008A VRDOs with JPMorgan LOC, and move forward with fixing out the Series 2008B VRDOs with Dexia with a fixed rate refunding, as most bonds will likely be Bank Bonds by the end of next week. The Committee recommended selection of Citi as the underwriter in connection with this refunding. Citi submitted an unsolicited proposal for this series. They are currently the remarketing agent for these bonds and could easily facilitate the refunding transaction. The Committee recommended that the Working Group begin work on the refunding and that Fulbright prepare the necessary resolution for approval at the October Board meeting.

9. Discussion Regarding Sale of Lehman to Barclays PLC

The Committee discussed the recent acquisition of Lehman Brothers municipal bond business by Barclays PLC and considered finding a replacement for underwriting in connection with the First Wind (UPC) and Northwest Wind Partners, LLC, wind project financings. The Committee recommended that PFM prepare a draft RFP for underwriting in connection with the First Wind (UPC) and Northwest Wind Partners, LLC wind projects.

10. Windy Point Project Financing Update

PFM provided the Committee with an update regarding the Windy Point Project financing. This project contemplates a straight asset purchase with tax-exempt financing. PFM and SCPPA will schedule an all hands meeting of the Working Group sometime in the next couple of weeks.

11. Unsolicited Proposal

There were three unsolicited proposals received: one from JPMorgan regarding swap opportunities, and two from Citi in connection with Magnolia and Palo Verde VRDOs. The Committee recommended that SCPPA consider Citi's proposal in connection with Palo Verde Bonds, as discussed in item 8 above. The Committee also recommended JPMorgan's Proposal in connection with the novation of an existing Interest Rate Swap Agreement to assign a swap with Bear Stearns Financial Products (BSFP) to JP Morgan Chase Bank, N.A. relating to the Magnolia Power Project, and suspension of an Interest Rate Swap Agreement with BSFP relating to the Mead-Adelanto Transmission Project, for a period not to exceed three years, in consideration for which the Authority would receive an up-front payment from BSFP of not less than \$1,250,000.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, NOVEMBER 3, 2008, AT 10:30 A.M.
AT THE SCPPA OFFICE**