



Debt Management Update

Finance and Insurance Committee

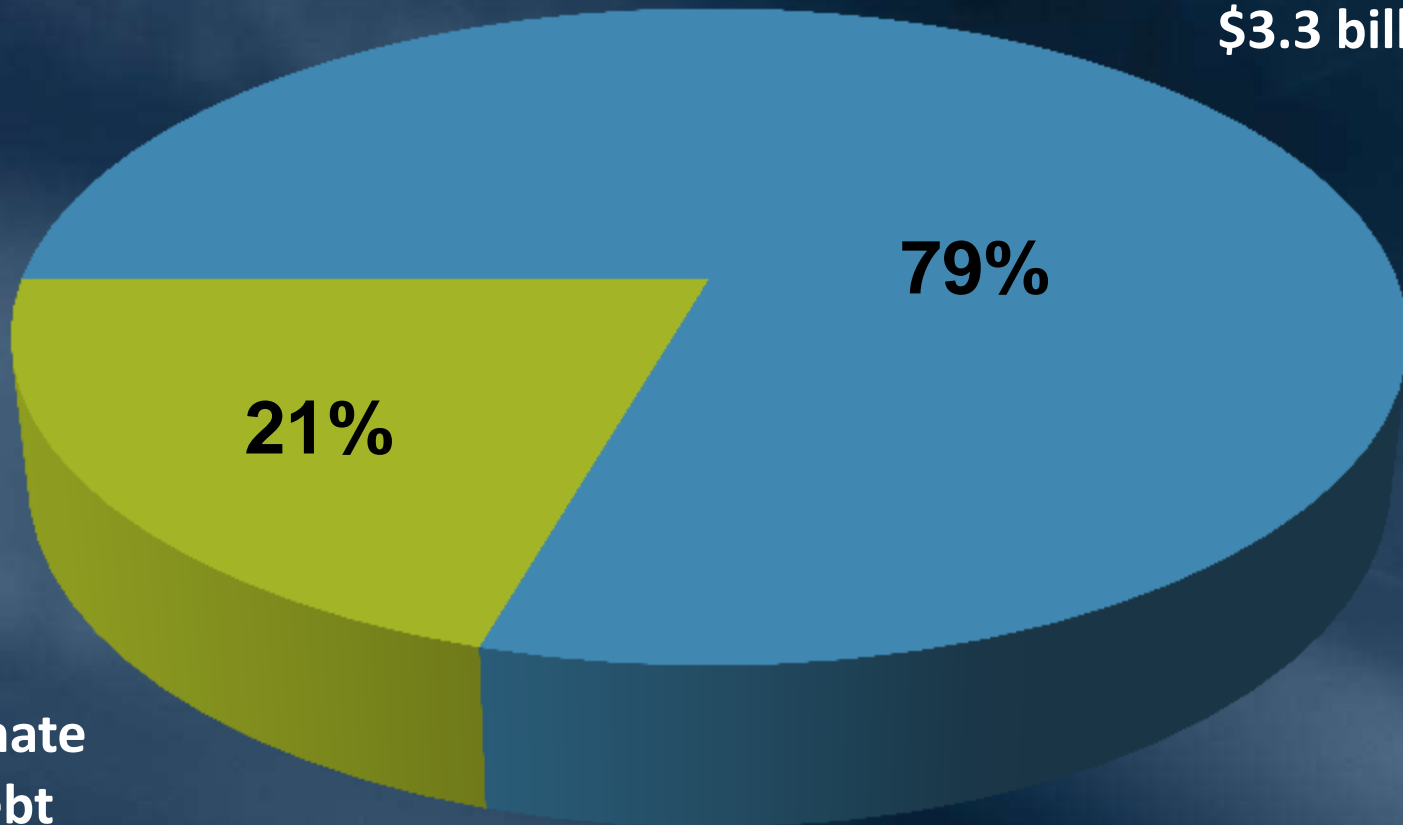
Item 6a

June 11, 2018

Revenue Debt by Lien-June 2018

\$4.2 Billion

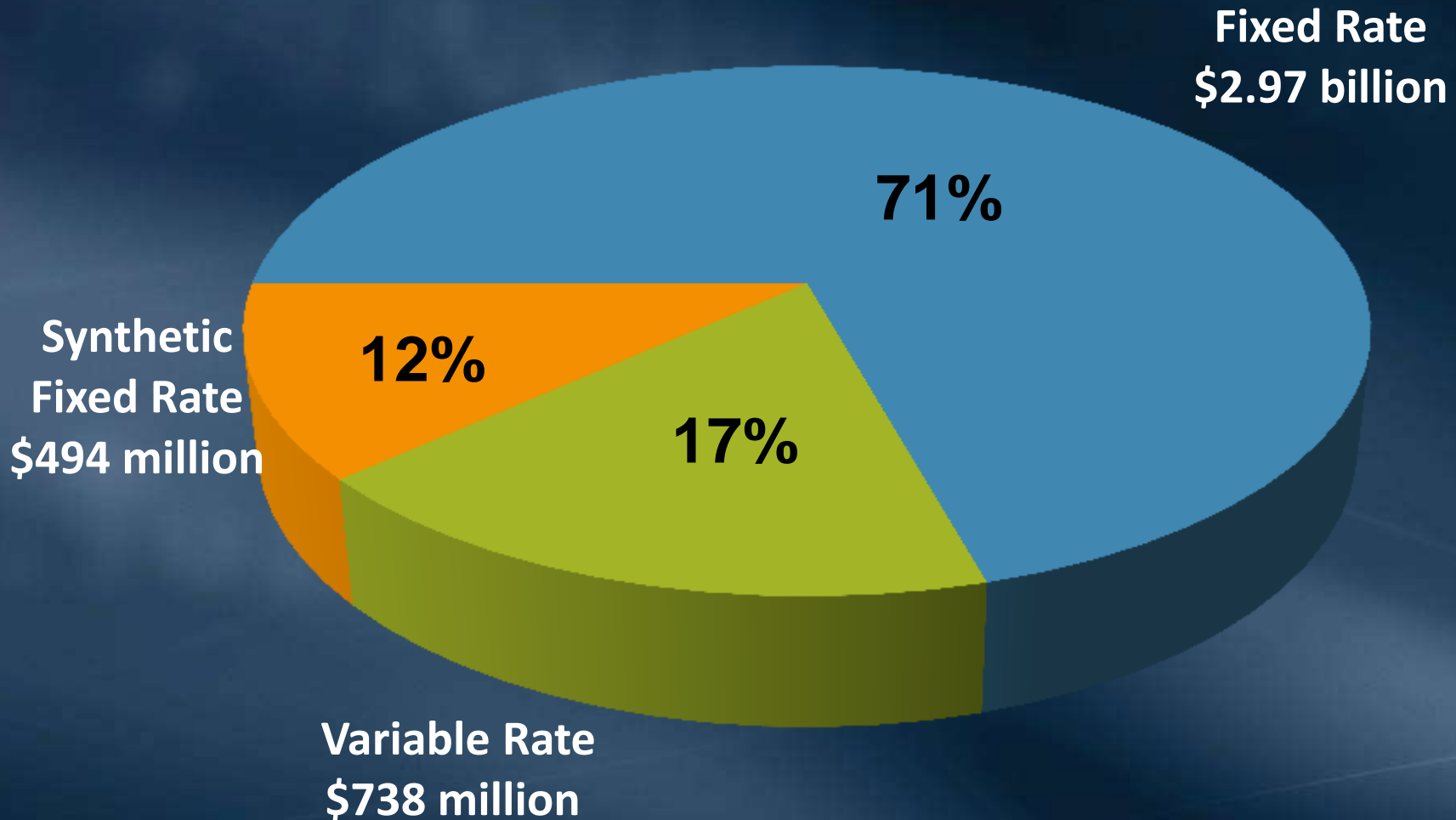
**Senior Lien
Debt
\$3.3 billion**



**Subordinate
Lien Debt
\$863 million**

Revenue Bond Debt by Type-June 2018

\$4.2 Billion



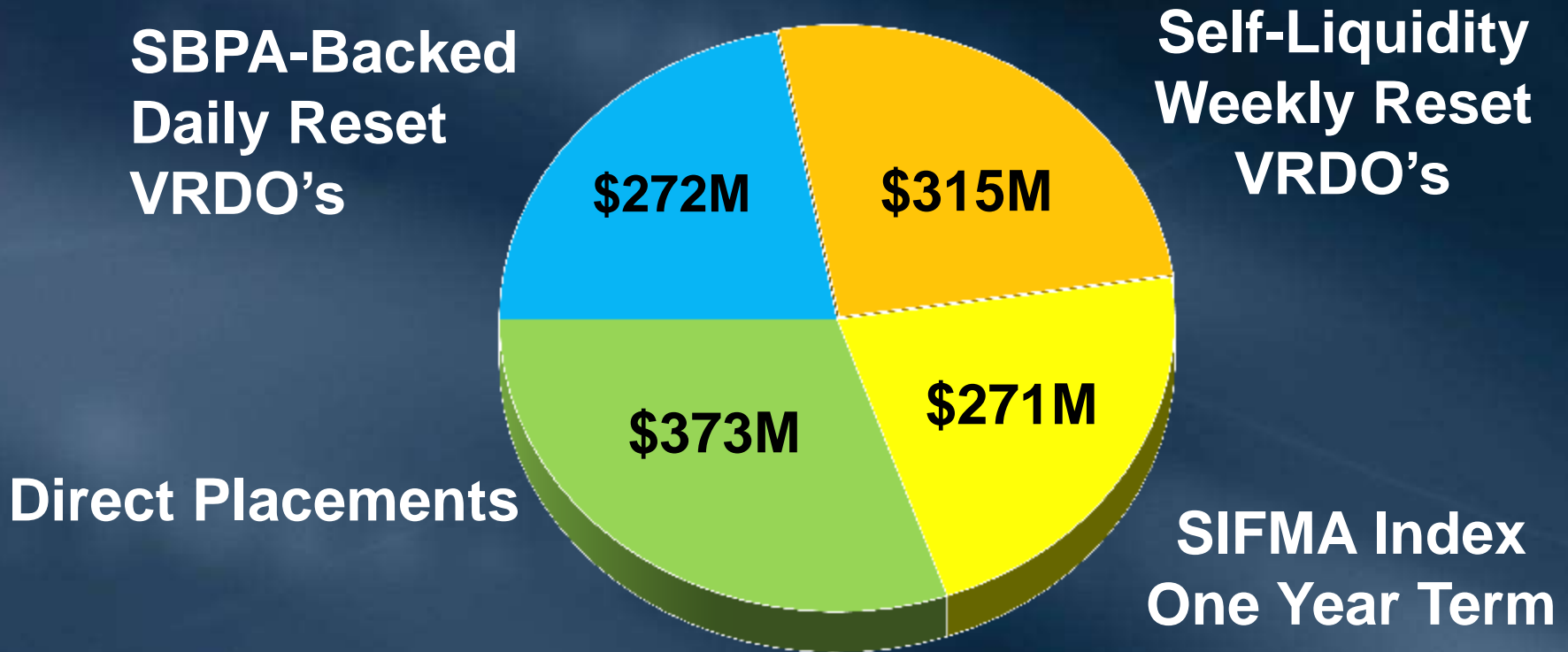
Review of Fixed Rate Subordinate Lien Financings

Competitive Bid Bond Sales

- **\$99 million refunding of two senior lien bonds**
 - Refunding bonds mature through 2023
 - True Interest Cost of 1.63%
 - Pricing was 0.28% less than AAA tax-exempt interest rates
 - Annual debt service savings of \$4.6 million per year
- **\$64 million new money bond sale**
 - Bonds mature in 2023 and 2028
 - Most of the 2028 maturity will be refunded in 2028 with longer maturities
 - True Interest Cost of 2.16%
 - Pricing was 0.28% less than AAA tax-exempt interest rates
 - Provides proceeds of \$80 million to fund portion of FY 2018/19 capital expenditures

Variable Rate Debt – June 2018

\$1.23 Billion



Planned Variable Rate Transaction

- **\$210 million senior lien, daily reset, variable rate refunding**
 - **Refund \$198 million direct placement bonds, that took out SIFMA Index bonds in December 2018**
 - **Refund \$11 million fixed rate bonds**
 - **Supported by an SBPA with The Toronto-Dominion Bank-New York Branch**
 - **Transaction to close in late June**

Rating Agency Highlights

Rating Agency Highlights

- **S&P Global Ratings affirmed ratings-stable outlook**
 - **AAA - Senior-lien long-term bonds**
 - **AA+ - Subordinate-lien long-term bonds**
 - **A-1+ - Highest short-term rating for both liens**
- **Fitch Ratings affirmed ratings-stable outlook**
 - **AA+ - Senior-lien long-term bonds**
 - **AA+ - Subordinate-lien long-term bonds**
 - **F1+ - Highest short-term rating for both liens**

S&P Global Ratings Highlights

- **Role as primary wholesaler to a large and extremely robust and diverse service area**
- **Diverse water supply from Colorado River, State Water Project (SWP), water transfers and stored water reserves to balance regional supply and demand requirements**
- **Strong financial management, conservative financial forecasting, ample financial reserves, and robust drought and resource planning to address any contingent liabilities**
- **High credit quality of larger member agencies**
- **Demonstrated willingness and ability to raise rates, citing most recently adopted rate increases for FY's 2018/19 and 2019/20**
- **Expectation that projected but not yet adopted rate increases will be approved to maintain sound financial operations**

Fitch Ratings Highlights

- Role as wholesaler supplemental supplier to large service area with an estimated population of 18.9 million. The urban and economic core of Southern California
- Diverse water supply from Colorado River and SWP, but cite concerns regarding variability in SWP allocations and continued drought on the Colorado River
- Revenue variability results in cyclical financial performance, with a highly volumetric rate structure, variable water sales, and relatively high treated water costs
- Credit profile supported by robust cash reserves and stored water reserves. Water storage reserves allow for higher water transactions during initial years of drought, while ample cash reserves buffer financial impact of periods of lower water transactions
- Member agency credit quality is considered quite strong
- Debt profile is moderate with scheduled debt amortization and improving cash flow from operations creating additional debt capacity

Rating Agency Meetings-California WaterFix

- Recent meetings with both rating agencies that included detailed discussion of the California WaterFix
- Rating agencies cite substantially higher debt burden and financial commitments with Metropolitan's assumption of 64.6% of California WaterFix costs
- Projected rate increases of 4.1% annually after FY 2019/20 are anticipated to be sufficient to fund Metropolitan's share of project costs
- Maintenance of the current ratings will depend on tight management of project costs and Metropolitan's ability to raise rates to cover these costs

