



M-S-R Public Power Agency

SPECIAL MEETING
OF THE FINANCIAL MANAGEMENT COMMITTEE
Thursday, February 20, 2014, 2:00 PM

TELEPHONIC MEETING LOCATIONS:

Modesto Irrigation District
1231 Eleventh Street
Modesto, CA 95354

City of Santa Clara – Electric Department
1500 Warburton Avenue
Santa Clara, CA 95050

City of Redding – Electric Utility
777 Cypress Street
Redding, CA 96001

Dial-in: 877-402-9757
Access Code: 3325500

AGENDA

Any member of the public who desires to address the Committee on any item considered by the Committee at this meeting before or during the Committee's consideration of that item shall so advise the Chair and shall thereupon be given an opportunity to do so.

1. Call to Order
2. Roll Call
3. *Approval of Minutes of January 22, 2014* (attached)
4. *Discussion and Possible Action Regarding Renewal of Series 2008 M and N Direct Purchase* (attached, Martin Hopper)
5. Public Comment
6. *Confirm date and time of next meeting*
7. Adjourn

ALTERNATE FORMATS OF THIS AGENDA WILL BE MADE AVAILABLE UPON REQUEST TO QUALIFIED INDIVIDUALS WITH DISABILITIES.



M-S-R PUBLIC POWER AGENCY

DRAFT MINUTES

**SPECIAL MEETING OF THE
FINANCIAL MANAGEMENT COMMITTEE
JANUARY 22, 2014**

The Financial Management Committee of the M-S-R Public Power Agency (M-S-R PPA) met telephonically for a Special Meeting on January 22, 2014, with telephonic meeting locations as follows: Modesto Irrigation District, 1231 Eleventh Street, Modesto, CA 95354; City of Santa Clara – Electric Department, 1500 Warburton Avenue, Santa Clara, CA 95050; and City of Redding – Electric Utility, 777 Cypress Street, Redding, CA 96001. Present from Modesto Irrigation District (MID) were Scott van Vuren (by telephone); present from Santa Clara was Jan Pepper (by telephone); and present from Redding was Mark Haddad (by telephone). Also participating by telephone was General Manager Martin R. Hopper.

Mr. Hopper acted as chairperson and called the meeting to order at 2:10 AM. A quorum was attained with the Member representatives being Mr. van Vuren, Ms. Pepper, and Mr. Haddad.

The Committee then considered approval of the draft minutes of its meeting of October 9, 2013. It was moved by representative Haddad and seconded by representative Pepper to approve the minutes of the October 9, 2013 meeting. On the call of the roll, the motion carried unanimously.

Mr. Hopper then addressed the Committee regarding priorities for the coming year for the Financial Management Committee. He recommended the Committee focus on three areas; the renewal or replacement of the Series 2008 M & N Bonds direct placement which expires in June at the end of its three-year term; the potential disposition of the San Juan Project in terms of meeting the requirements of the Agency's Bond Indentures and

tmaximizing the benefits to the Members; and to review the Agency's procedures and requirements for the computation of debt service coverage and the satisfaction of apparently conflicting requirements of its Bond Resolution and Subordinate Lien Bond Indenture. After a discussion of the issues, the Committee concurred with the proposed priorities.

Mr. Hopper then addressed the Commission regarding the proposed extension of the Consulting Agreement For M-S-R Public Power Agency Professional Financial Advisor Services" with Montague DeRose and Associates, LLC. The agreement with Montague DeRose and Associates LLC is for a three-year term with three optional one-year extensions. The services provided by Montague DeRose and Associates LLC have continued to meet the Agency's requirements and the Financial Management Committee has recommended exercising the second extension of the agreement. It was moved by representative Haddad and seconded by representative Pepper that the Financial Management Committee recommend that the M-S-R PPA Commission approve a one-year extension of the "Consulting Agreement For M-S-R Public Power Agency Professional Financial Advisor Services" with Montague DeRose and Associates, LLC for the period January 1, 2014, through December 31, 2014. On the call of the roll, the motion carried unanimously.

The Chair then called for Public Comment. There being none, the Chair announced that the next regular meeting of this committee remains Wednesday, May 7, 2014, and that special meetings will be called on an emergent basis as may be required. The meeting was then adjourned by Mr. Hopper at 2:31 PM.

Respectfully Submitted,

Martin R. Hopper
General Manager

M-S-R Public Power Agency Staff Report

Date: February 16, 2014
From: Martin R. Hopper, General Manager
To: M-S-R PPA Financial Management Committee
Subject: Renewal of Series 2008 M and N Direct Placement

The Agency has been approached by Wells Fargo Bank regarding a potential Renewal of the Series 2008M & 2008N Bonds Direct Placement offering nominal savings of about \$300,000 per year million over the next three-years. The current direct placement expires June 14, 2014, and will require replacement prior to that time. The proposal has been reviewed by the Agency's Financial Advisor, Montague DeRose and Associates, Inc. who has recommended the Agency pursue this extension. A copy of their report is attached.

The Financial Advisor has reviewed the market and has found a number of pricing comparables for entities with slightly superior credit to M-S-R PPA A3/ - /A (M/S&P/F). They have also noted it may be possible to slightly improve the spreads with regard to the Taxable portion of the transaction.

The next steps will be to finalize the terms of the transaction and in conjunction with Bond Counsel, develop the appropriate documentation for consideration by the M-S-R PPA Commission at its next regular meeting on March 19, 2014.

I recommend the Financial Management Committee direct the Financial Advisor and General Manager to negotiate a potential renewal of the Series 2008 M and N Bonds Direct Placement with Wells Fargo Bank and to bring back an approvable proposal to the M-S-R PPA Commission no later than March 19, 2013.



Memorandum

To: Martin Hopper, M-S-R General Manager

From: Montague DeRose and Associates, LLC

Date: February 6, 2014

Subject: Series 2008 M and N – Direct Purchase Renewal Recommendation

The M-S-R Public Power Agency (the "Agency") currently has in place two direct purchase agreements with Wells Fargo Bank for its San Juan Project Subordinate Lien Revenue Bonds, Series 2008M (Tax-Exempt) and Series 2008N (Taxable) (the "Bonds"). The rate on the Bonds is currently 70% of 1M LIBOR + 80 basis points (Series 2008M) and 100% of 1M Libor + 100 basis points (Series 2008N) and the direct purchase agreements expire on June 14, 2014.

Wells Fargo has offered to renew these direct purchase agreements for three years at a rate of 70% of 1-Month LIBOR + 40 basis points for the tax-exempt Series 2008M bonds and a rate of 100% of 1-Month LIBOR + 60 basis points for the taxable Series 2008N bonds. They have also agreed to retain the call provision. Based on the 40 basis point reduction in spread proposed by Wells Fargo, M-S-R would save approximately \$318,000 annually under these new agreements. MDA evaluated this proposed pricing relative to similarly structured direct purchase agreements, public market floating rate notes (FRNs) and stand-by bond purchase agreements (SBPAs). These products generally price in similar ranges, with pricing for similar credits ultimately being a function of the details of the structure, specific bank appetite and market conditions.

The proposed pricing for M-S-R is better than pricing achieved by the Sacramento Regional County Sanitation District (A1/AA-/A+, subordinate lien ratings) for direct purchases executed last fall (+50 basis points). It also falls between pricing for a California water utility (solid double-A subordinate lien ratings) for a SBPA (+35 basis points, currently in documentation) and the A1/A rated State of California (+55 basis points for FRNs). In addition, conversations with a major short-term desk indicate that generic pricing for a strong A rated, 3-year, callable public FRN with term-out provisions in the event of a failure to remarket on the mandatory tender date would be in the +40 bps area. A table with additional comparables is included as an appendix.

Based on this analysis, we believe the tax-exempt pricing is reasonable given M-S-R's solid A-ratings and the terms of the direct purchase agreement. However, given strong bank demand for direct purchase product, M-S-R may want to consider countering Wells Fargo's offer with a request for slightly tighter pricing.

We recommend that M-S-R pursue extending the direct purchase agreements with Wells Fargo for both the Series 2008M and 2008N bonds, but negotiate to see if slightly lower spreads can be achieved.

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Direct Purchase Renewal Recommendation

If you have any questions on the Wells proposal, please contact Frank Perdue or Natalie Perkins at (925) 256-9797.

Appendix: Pricing Comparables for Tax-Exempt Direct Purchase

Issuer	Rating (M/S&P/F)	Product	Maturity	Pricing
East Bay Municipal Utility District	Aa1/AAA/AA+	SBPA	3 yrs	0.27%
Sacramento Regional County Sanitation District	A1/AA-/A+	Direct Purchase	3 yrs	0.50%
State of California	A1/A/A	FRN	3 yrs	0.55%
Massachusetts Development Finance Authority ¹	Aa2/AA/AA	FRN	4 yrs	0.55%
Ohio Water Development Authority ²	NR/AAA/AA+	FRN	2.5 yrs	0.40%
San Antonio Water (Jr Lien)	Aa2/AA/AA	FRN	2.75 yrs	0.68%
NY Metropolitan Transportation Authority (Dedicated Tax)	NR/AA/AA-	FRN	2.75 yrs	0.36%

² Partners Health Care transaction

³ Immediately callable