



TO: Board of Directors
FROM: Bill D. Carnahan
SUBJECT: Meeting of the SCPPA Finance Committee – March 2, 2009
DATE: March 3, 2009

A meeting of the Finance Committee was held on March 2, 2009, at the SCPPA office in Pasadena.

Committee members in attendance were: Chairman Bill Carnahan (*SCPPA*); Russell Dowell (*Anaheim*); Bob Liu (*Burbank*); Jeannette Olko (*Colton*); Dave Davis (*Glendale*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Brian Seinturier (*Riverside*).

Others present were: Peggy Keigler (*Colton*); Stephen Cole, (*Fulbright & Jaworski*); Dan Hartman, Mike Berwanger, and Will Frymann (*Public Financial Management*); Therese Savery (*LADWP*); and Craig Koehler, Steve Homer, and Richard Helgeson (*SCPPA*).

1. Investment Report

The Committee reviewed the Investment Report for the month of January 2009, and agreed to forward the report to the Board for receipt and filing.

2. Project Budget Comparison Reports

Budget Comparison Reports for the period ended December 31, 2008, were presented to the Committee. The Committee recommended deferring forwarding to the Board until April in order to have time to review.

3. Magnolia Power Project A Refunding Revenue Bonds 2007-1 Refinancing

PFM provided an update in connection with the refinancing for the Magnolia Power Project A, Refunding Revenue Bonds 2007-1 Series. The refinancing is proceeding with Citi according to schedule with a \$223 million uninsured VRDO LOCs to be issued by Bank of America and KBC, and a \$25 million unhedged VRDO to cover the swap termination payments and certain other costs. Swap termination values have dropped and the current total swap valuation is approximately \$19 million. The transaction is contemplated to close in late April. The Committee recommended the Board approve all agreements, documents, and fees relating to the refunding.

4. Milford I Wind Project Update

The Committee received an update in connection with the Milford I Wind Project. The Committee reaffirmed the selection of Barclays as the lead underwriter, with the concurrence of the Executive Director, with such appointment being subject to the negotiation of fees or other compensation acceptable to the Finance Committee as confirmed by the Authority members participating in the Project (LADWP, Burbank, and Pasadena), by a vote of each such member's representative on the Finance Committee voting in accordance with Section 6 of its First Amended and Restated Power Sales Agreement.

5. Windy Point Wind Project Update

The Committee received an update in connection with the Windy Point Wind Project. The Committee reaffirmed the selection of JPMorgan as the lead underwriter, with the concurrence of the Executive Director, with such appointment being subject to the negotiation of fees or other compensation acceptable to the Finance Committee as confirmed by the Authority members expected to participate in the Project (LADWP, Burbank, and Glendale), by a vote of each such member's representative on the Finance Committee voting in accordance with each participating member's project share pursuant to the voting methodology established through the Renewable Electric Energy Resource Project Development Agreement.

6. Northwest Wind Project Update

The Committee received an update in connection with the Northwest Wind Project. The Committee reaffirmed the selection of Morgan Stanley as the lead underwriter, with the concurrence of the Executive Director, with such appointment being subject to the negotiation of fees or other compensation acceptable to the Finance Committee as confirmed by the Authority members expected to participate in the Project (LADWP, Burbank, Glendale, and Pasadena), by a vote of each such member's representative on the Finance Committee voting in accordance with each participating member's project share pursuant to the voting methodology established through the Renewable Electric Energy Resource Project Development Agreement.

7. Leaning Juniper Wind Project Update

The Committee received an update in connection with the Leaning Juniper Wind Project. The Committee reaffirmed the selection of Goldman Sachs as the lead underwriter, with the concurrence of the Executive Director, with such appointment being subject to the negotiation of fees or other compensation acceptable to the Finance Committee as confirmed by the Authority members expected to participate in the Project (LADWP, Glendale, and Pasadena), by a vote of each such member's representative on the Finance Committee voting in accordance with each participating member's project share pursuant to the voting methodology established through the Renewable Electric Energy Resource Project Development Agreement. The Committee recommended to the Board the adoption of a reimbursement resolution permitting the reimbursement of costs and expenses incurred prior to the issuance of the bonds to acquire the Leaning Juniper Wind Project located in the State of Oregon.

8. Market and VRDO Update

PFM provided a market and VRDO status report regarding potential restructuring on existing SCPPA variable rate debt. Variable rate performance in February was very similar to January with generally low rates and some continuing pressures on the Dexia backed bonds. As Treasury rates have risen, LIBOR based fixed payer swaps mark-to-market values have declined. SIFMA based fixed payer swaps valuations have declined even more. AIG is currently expected to announce a \$60 billion quarterly loss, which would be the largest in corporate history. Talks continue between a number of U.S. government agencies including the Federal Reserve and the U.S. Treasury, and are aimed at putting together a package of financial aid to AIG. Both S&P and Moody's have endorsed the terms of the revised bailout.

The financial viability of AIG is still very much in question and the market has showed skepticism as AIG stock price has continued to fall. SCPPA has a number of projects that have exposure to AIG that are primarily through investment contracts. All contracts have been collateralized, but risks remain for SCPPA. PFM Asset Management has made a number of recommendations in connection with the projects that have exposure to AIG. In connection with the Natural Gas Reserves, Project A, PFMAM recommends maintenance of the GICs that are in place, consistent with the direction of the Participants (Anaheim, Burbank, and Colton), and believes that this is the advisable course from a risk-adjusted basis given the collateralization requirements. For the San Juan Project, PFMAM recommends maintaining the two GICs consistent with the Participants direction, due to the costs of termination and the limited exposure to AIG with collateralization.

9. Southern Transmission System 1991 Refinancing

PFM provided an update in connection with the potential refinancing for the Southern Transmission System 1991 Series Bonds. SCPPA's near term plans hinge on the viability of AIG/Ambac/Lloyd's, and thus far SCPPA has been economically unaffected. In the current fixed rate bond market, a fixed rate refinancing of the STS 1991 bonds would be costly to SCPPA, but would reduce SCPPA's risks.

10. Palo Verde Project 1997B Escrow Restructuring

The Committee received an update in connection with tendering the Palo Verde Project 1997 Series B Bonds. The Board has approved the tender transaction with Goldman Sachs, and documents are nearing completion. Based upon prior estimated tender prices, Goldman Sachs suggested that SCPPA may be able to net as much as \$10 million to \$20 million in savings. PFM is working with Goldman Sachs to attempt to come to an agreed pricing methodology for the sale of a portion of the existing escrow securities.

11. Gas Prepaid #1

PFM updated the Committee regarding negotiations with AIG regarding the downgrade of AIG and the possible addition of posting collateral by AIG under the Commodity Swap. PFMAM recommends that SCPPA review all options to replace AIG as the GIC provider on the Debt Service Fund and Working Capital Reserve Fund, which GICs have been collateralized. Since the failure of AIG can cause the termination of the entire transaction, PFMAM would recommend trying to replace AIG, if possible.

12. Unsolicited Proposals

PFM provided a summary of the unsolicited proposals received. SCPPA received unsolicited proposals from Morgan Stanley, Stone & Youngberg, and Citi in connection with a weekly reset bond program with SIFMA offsets. PFM recommends no action at this time and will continue to monitor.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, APRIL 6, 2009, AT 10:30 A.M. AT THE SCPPA OFFICE**