

AGENDA
SPECIAL JOINT MEETING
BOARD OF DIRECTORS
OF THE SANTA FE IRRIGATION DISTRICT
AND THE SAN DIEGUITO WATER DISTRICT

June 19, 2007 at 4:00 p.m.
Encinitas City Hall, Council Chambers
505 South Vulcan Avenue, Encinitas

CALL MEETING TO ORDER

PLEDGE OF ALLEGIANCE

ITEMS TO BE ADDED TO THE AGENDA

(Government Code Section 54956.5)

ORAL COMMUNICATIONS

Opportunity for members of the public to address the Board (Government Code Section 54954.3)

PRESENTATIONS/PROCLAMATIONS

1. Presentation by the San Diego County Water Authority - Water Supply Reliability

ACTION AGENDA

The following items on the Action Agenda call for discussion and action by the Board of Directors. All items are placed on the Agenda so that the Board may discuss and take action on the item if the Board is so inclined.

ACTION AND DISCUSSION ITEMS

2. Consider the Proposed Refunding of the R.E. Badger Water Facilities Financing Authority 1999 Water Revenue Bonds

DIRECTORS' COMMENTS

Director's comments are comments by Directors concerning District business, which may be of interest to the Board. They are placed on the Agenda to enable the individual Board members to convey information to the Board and the public. No action is to be taken on comments made by the Board members.

3. Directors' Comments (oral)

ADJOURNMENT

Assistance for the disabled: If you are disabled in any way and need accommodation to participate in the Board meeting, please call the Board Secretary at (858) 756-2424 for assistance at least three (3) working days prior to the meeting so the necessary arrangements can be made.

DATE: June 19, 2007

SUBJECT: Presentation by the San Diego County Water Authority - Water Supply Assessment

RECOMMENDATION:

This item is presented for informational purposes only and no action is required.

DISCUSSION:

Over the past several months, San Diego County Water Authority (“SDCWA”) staff has presented a series of reports to their Board of Directors regarding water supply reliability and implementation of the early phases of the Drought Management Plan. A variety of issues in the California Bay-Delta area and along the Colorado River, the primary sources of imported water, have combined to create conditions that place pressure on water supplies.

Because of the importance of this issue and in an effort to provide accurate, timely information to all member agencies, the SDCWA has requested the opportunity to visit member agency governing bodies to present and discuss current information about water supply assessments recently conducted by SDCWA staff. Ms. Maureen Stapleton, General Manager of the SDCWA and Ms. Fern Steiner, Chair of the SDCWA Board of Directors will be present at the Joint SDWD/SFID Special Board of Directors meeting to provide information on these important issues and review current conditions.

FISCAL IMPACT:

None.

DATE: June 19, 2007

SUBJECT: Consider the Proposed Refunding of the R.E. Badger Water Facilities Financing Authority 1999 Water Revenue Bonds

RECOMMENDATION:

It is the Staff recommendation that the Board of Directors of the San Dieguito Water District and Santa Fe Irrigation District:

1. Review and discuss the proposed refunding of the R.E. Badger Water Facilities Financing Authority 1999 Water Revenue Bonds; and
2. Authorize staff of each District to proceed with the preparation of the respective Resolutions necessary to proceed with the refunding; and
3. Discuss and take other action as appropriate.

BACKGROUND

The R.E. Badger Water Facilities Financing Authority (the “Authority”) was established pursuant to a Joint Exercise of Powers Agreement dated September 22, 1999 by and between San Dieguito Water District (“San Dieguito”) and Santa Fe Irrigation District (“Santa Fe”).

The Authority issued its 1999 Water Revenue Bonds (the “1999 Bonds”) in a par amount of \$27,505,000 to finance the acquisition and construction of certain improvements to the Santa Fe and San Dieguito water systems, to fund reserve funds and to pay certain issuance costs of the 1999 Bonds.

The 1999 Bonds are payable from revenues of the Authority consisting of Installment Payments to be paid by Santa Fe and San Dieguito. Santa Fe is responsible for approximate 62.6% of total debt service and San Dieguito is responsible for the remaining 37.4%. The amortization schedule of the 1999 Bonds was structured so that the Santa Fe portion of the 1999 Bonds matures on October 1, 2019 and the San Dieguito portion of 1999 Bonds matures on October 1, 2024.

The issue was sold with underlying credit ratings of A1 and A by S & P and Moody’s respectively. The bond insurance was provided by FGIC. Bond insurance elevated the credit rating on the 1999 Bonds to triple-A (AAA). This permitted the Authority to sell the 1999 Bonds with the highest rating possible and obtain the most efficient interest expense on the 1999 Bonds.

DISCUSSION

Recent changes in tax-exempt interest rates presented the opportunity to refinance the outstanding 1999 Water Revenue Bonds. Net present value (NPV) and cash flow savings to both Districts presently exist. The potential refunding of the 1999 Bonds was reviewed with the Authority Board of Directors at its April 23, 2007 meeting. This issuance of new bonds (the "Refunding Bonds") is a refinancing for savings in which the 1999 Bonds will be replaced with the Refunding Bonds that will have lower interest rates and therefore, lower interest expense. Following the April 23rd meeting, various parties have been engaged to assist with the refunding, including Fieldman, Rolapp and Associates ("FRA") as the financial advisors, and Best, Best & Krieger ("BBK") to serve as both Bond and Disclosure Counsel. To date, the refunding team, comprised of representatives of each District, FRA and BBK has met twice, and the preliminary refunding documents have been drafted and reviewed.

This item is being presented to the Santa Fe and San Dieguito Boards to provide an overview of the proposed refunding and the opportunity to consider moving forward with a current refunding of the 1999 Bonds. Representatives from FRA and BBK will be present at the meeting to provide a presentation on the status of the refunding effort and answer questions. Following authorization to staff to proceed, subsequent action will be necessary to establish a minimum savings threshold. Subsequently, each agency will be required to approve the following agreements:

- Installment Sale Agreement
- Escrow Agreement
- Continuing Disclosure Agreement
- Preliminary Official Statement

The R.E. Badger Water Facilities Financing Authority will be required to approve the issuance of the Refunding Bonds, Installment Agreements, a Continuing Disclosure Agreement, the Official Statement, the Notice of Sale, and authorize staff to take actions to accomplish the refunding.

Staff has determined that selling the Refunding Bonds on a competitive basis will allow greater transparency of the process and obtain the lowest cost of funds. The proposed schedule for this financing, which is subject to change, currently contemplates the closing date to be September 30, 2007, and the 1999 Bonds to be called on October 1, 2007, which is consistent with a current refunding. The successful closing of the bond issue is contingent upon, among other things, approval of all financing and legal documents at the Santa Fe Board Meeting on July 18, 2007, and San Dieguito Board Meeting on July 19, 2007.

In addition, staff is working with FRA to prepare a credit presentation package and possible presentation to rating agencies analysts to obtain favorable rating on the Refunding Bonds. It is anticipated municipal bond insurance will be obtained on the Refunding Bonds to raise the rating on the new bonds to AAA.

Refunding Analysis

The refunding analysis reflects tax-exempt interest rates as of May 31, 2007, and standard assumptions for a revenue refunding issue which can be insured and obtain a rating. The table below provides a breakdown summary that presents the projected refunding results for both Districts.

| | Total Authority | San Dieguito Water District | Santa Fe Irrigation District |
|------------------------|------------------------|------------------------------------|-------------------------------------|
| Principal Amount | \$21,615,000 | \$8,095,000 | \$13,520,000 |
| NPV Savings | \$1,135,892 | \$542,937 | \$592,954 |
| NPV Savings | 5.30% | 6.90% | 4.37% |
| Average Annual Savings | \$96,377 | \$41,794 | \$75,575 |

It is important to note that because the Santa Fe portion of the Bonds matures five years sooner than the San Dieguito portion of Bonds (October 1, 2019 vs. October 1, 2024), Santa Fe’s NPV % savings is lower.

Conclusion

An analysis of the refunding of the 1999 Bonds indicates that adequate savings are attainable. At this time, the Authority can move forward and take advantage of current market interest rates that would result in an acceptable NPV savings.

FISCAL IMPACT:

The projected cost of the refunding effort is approximately \$500,000 and will be paid from proceeds of the Refunding Bonds. This amount has been included in the NPV savings analysis.