Presentation Overview

- DWSP Financing Plan
  - Existing Water Debt Profile
    - Definition of Debt Service Coverage
  - Existing vs. New Indenture
  - Water Rate Study Plan of Finance (June 2009)
  - Proposed Plan of Finance
    - Variable Rate Bonds
  - Debt Service Comparison of Two Plans
  - Summary
  - Recommendation
Existing Water Debt Profile

- **2005 Water Revenue Bonds, Series A**
  - Remaining Par: $24,230,000
  - Rates: 4.00% (2017) - 4.75% (2035)
  - Maturity: October 1, 2035

- **Water and Wastewater Revenue Bonds, Series 2002A**
  - Remaining Par: $11,280,000
  - Rates: 3.90% (2010) - 5.125% (2022)
  - Maturity: October 1, 2022

- **Federal Drought Relief Loan**, US Department of Commerce, Economic Development Administration
  - Remaining Par: $610,441
  - Rate: 5.00%
  - Maturity: July 1, 2017
Existing Water Debt Profile (continued)

- Level debt service payments through FY 2036
- All fixed-rate

City of Stockton
Water System Debt Profile
(Current System)
Definition of Debt Service Coverage

System Revenue/Rates/Charges
(Less: Operations and Maintenance)
= Net System Revenue
(Less: Senior Debt Service)
= Available Revenue
(Less: Subordinate Debt Service)
= Revenue Available for Capital /Other Items
Existing vs. New Indenture

- Bonds issued under existing indenture
  - 2002 and 2005 Bonds

- Additional bonds test (ABT)
  - Current year Net System Revenue vs. Maximum Annual Debt Service
    - Applies to all Senior Bonds
    - Limits bond capacity
      - Does not account for revenues related to multi-year rate increases
  - New indenture allows for measurement of annual Available Revenue vs. Annual Debt Service
    - Applies to all Subordinate Bonds
    - Expands bond capacity
      - Allows debt service to grow as rate increases are implemented
Water Rate Study Plan of Finance

Key Assumptions

- Two bond financings in 2009 and 2010 ($258.4 million total)
- Subordinate uninsured fixed-rate bonds
- Close off lien on senior bonds
- Project costs financed: $212 million
  - Represents $217 million less costs not eligible for reimbursement
- Conservative estimates for interest rates and costs of issuance
- Assumed “not-to-exceed” bond issuance at $260 million
- Deposit of $7.5 million to Rate Stabilization Fund
# Rate Study Plan of Finance Summary

## City of Stockton
Bond Sizing Results (DWSP Final Rate Study)

### Sources

<table>
<thead>
<tr>
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<th>2009 Financing</th>
<th>2010 Financing</th>
<th>Total</th>
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<tbody>
<tr>
<td>Par Amount</td>
<td>114,860,000.00</td>
<td>143,510,000.00</td>
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<td>Premium</td>
<td>883,520.55</td>
<td>1,103,868.55</td>
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<td><strong>$144,613,868.55</strong></td>
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### Uses

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<th>2009 Financing</th>
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<tr>
<td>DWSP Project Fund Deposit</td>
<td>99,756,733.00</td>
<td>112,783,164.00</td>
<td>$212,539,897.00</td>
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<td>Debt Service Reserve Fund</td>
<td>10,496,837.50</td>
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<td>Capitalized Interest Fund</td>
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<td>Cost of Issuance</td>
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<td>Underwriter's Discount</td>
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<td>1,173,607.53</td>
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<td>Additional Proceeds</td>
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<td>1,967.16</td>
<td>$3,681.31</td>
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<td><strong>Total Uses</strong></td>
<td><strong>$115,743,520.55</strong></td>
<td><strong>$144,613,868.55</strong></td>
<td><strong>$260,357,389.10</strong></td>
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Rate Study Plan of Finance Debt Profile

City of Stockton
Water System Debt Profile
(Rate Study)
Proposed Plan of Finance

- Two separate series issued in 2009 and 2010
  - 2009 series subordinate uninsured fixed-rate
  - 2010 series planned as senior variable rate
- Possible third series in 2010 as subordinate, uninsured fixed-rate if Proposition 84 grant funds not awarded
- Close off lien on senior bonds, except for “not-to-exceed” $55 million to be issued in 2010
Proposed 2009 Series

- Issue $177.1 million of bonds
  - Fund project expenditures of $150 million through calendar year 2010
  - Subordinate uninsured fixed-rate bonds
  - Fully funded reserve fund
  - Capitalized interest through Fiscal Year 2012
# Proposed 2009 Series Summary

## City of Stockton

### 2009 DWSP Sources and Uses of Funds

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<thead>
<tr>
<th>Sources</th>
<th>2009 Financing</th>
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<td>Par Amount</td>
<td>177,050,000.00</td>
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<td>Premium/(Discount)</td>
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<td><strong>Total Sources</strong></td>
<td>$176,338,249.35</td>
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<th>Uses</th>
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<td>DWSP Project Fund Deposit</td>
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<td>Debt Service Reserve Fund</td>
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<td>Capitalized Interest Fund</td>
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<td>Cost of Issuance</td>
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<td>Underwriter's Discount</td>
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<td>Additional Proceeds</td>
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<td><strong>Total Uses</strong></td>
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Proposed 2010 Series

- Issue $49.6 million of bonds
  - Fund remaining project expenditures of $49 million
  - Issued as senior bonds on parity with existing senior indebtedness
  - Current plan shows issuance as variable rate bonds
    - Can also be issued as uninsured fixed-rate bonds
  - Assuming variable rate:
    - No reserve fund requirement
    - No need to fund capitalized interest
Variable Rate Bonds

- Management of risk
  - Acts as a natural hedge - interest rate increases offset by higher rate of return on fund balance investments

- Variable rate bonds callable any time
  - Uninsured fixed-rate bonds typically have 10-year call protection

- Breakeven analysis
  - Current interest rate estimate of 0.30% plus estimated letter of credit fee of 1.50% and remarketing fee of 0.25% = 2.05%
  - Fixed-rate bonds interest rate estimate of 5.77%
  - Breakeven = 3.72% below fixed rate option (5.77% minus 2.05%)

- For modeling purposes, the variable rate bonds conservatively estimated at 4.00%
  - Includes estimated letter of credit and remarketing fees
Proposed 2010 Series (if needed)

- 2010 Series for $16.7 million
  - Fund project expenditures of $13.5 million if Proposition 84 grant funds not awarded
  - Uninsured fixed-rate bonds
  - Issued as subordinate bonds on parity with 2009 series
  - Fully funded reserve fund
  - Capitalized interest through Fiscal Year 2012
## Proposed 2010 Series Summary

### City of Stockton
#### 2010 DWSP Sources and Uses of Funds

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<thead>
<tr>
<th>Sources</th>
<th>2010 Financing (Fixed)</th>
<th>2010 Financing (Variable)</th>
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<td>Par Amount</td>
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<td>Premium/(Discount)</td>
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<td><strong>Total Sources</strong></td>
<td><strong>$16,563,150.90</strong></td>
<td><strong>49,585,000.00</strong></td>
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<th>Uses</th>
<th>2010 Financing (Fixed)</th>
<th>2010 Financing (Variable)</th>
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<tr>
<td>DWSP Project Fund Deposit</td>
<td>13,539,897.00</td>
<td>49,000,000.00</td>
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<td>Debt Service Reserve Fund</td>
<td>1,549,933.30</td>
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<td>Capitalized Interest Fund</td>
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<td>Cost of Issuance</td>
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<td>Underwriter's Discount</td>
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<td>Additional Proceeds</td>
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<td><strong>Total Uses</strong></td>
<td><strong>$16,563,150.90</strong></td>
<td><strong>$49,585,000.00</strong></td>
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Proposed Plan of Finance Debt Profile

City of Stockton
Water System Debt Profile
(Revised Plan of Finance)
Debt Service Comparison

- **Water Rate Study (June 2009)**
  - Two series subordinate uninsured fixed-rate bonds
  - $18.1 million average annual net debt service
  - Total net debt service = $549.6 million
  - **True Interest Cost (TIC) = 6.31%**

- **Market Rates - June 10 Water Committee Meeting**
  - One series subordinate uninsured fixed-rate bonds
  - $17.0 million average annual net debt service payments
  - Total net debt service = $522.0 million
  - **TIC = 5.77% (reduction of $27.6 million in debt service)**

- **Proposed Plan of Finance (RECOMMENDED)**
  - Two series – mix of subordinate uninsured fixed-rate bonds and senior variable rate bonds and possible third series
  - $15.6 million average annual net debt service
  - Total net debt service = $483.0 million
  - **TIC = 5.50% (reduction of $66.6 million in debt service)**
Summary

- 2009 series subordinate uninsured fixed-rate bonds and 2010 series senior variable rate bonds
  - Additional 2010 series subordinate, if needed
- Carving out $55.0 million of senior lien to be issued as 2010 series senior bonds
  - Reduces overall cost of capital (lower interest rates)
  - Fosters higher credit rating and easier access to letters of credit or other enhancement
  - If enhancement not available, bonds can be sold as senior uninsured fixed-rate bonds
- No need to finance $13 million of project costs if Proposition 84 grant funds are awarded
Council Water Committee Recommendation

- Proposed Plan of Finance for Delta Water Supply Project reviewed with Council Water Committee July 15, 2009

  - Committee recommended that the City Council and Public Financing Authority authorize the issuance and sale in one or more series in an amount not to exceed $260.0 million for the Delta Water Supply Project and direct the issuance and sale of one or more series designated as Series 2009 in an amount not to exceed $185.0 million and take all necessary actions and approve all related documents.
Recommendation
City Council

- Adopt a resolution authorizing the form of and the execution and delivery of one or more 2009 Installment Purchase Contracts, one or more Bond Purchase Contracts, a Continuing Disclosure Certificate and an Official Statement relating to an installment purchase financing associated with the Delta Water Supply Project and approving certain actions in connection therewith
Recommendation
Public Financing Authority

- Adopt a resolution
  - Authorizing the issuance and sale of Stockton Public Financing Authority Water Revenue Bonds (Delta Water Supply Project) in one or more series from time to time in an aggregate principal amount not to exceed $260 million and directing the issuance and sale of one or more series of such bonds designated as “Series 2009” in an aggregate principal amount not to exceed $185 million
  - Approving the form of and authorizing the execution and delivery of one or more 2009 Indentures, one or more 2009 Installment Purchase Contracts, one or more Bond Purchase Contracts and an Official Statement relating to an installment purchase financing
  - Approving certain actions in connection therewith