Decision on Refinancing of 2009 Series A Bonds

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Board of Governors Meeting
General Session
July 11-12, 2013

Management is proposing the issuance of advance refunding bonds for the purpose of refinancing the 2009 Series A Bonds.

Today's presentation:

- Summary of 2009 Series A Bonds and options
- Review of interest rate levels and impacts of decision
- Discuss mechanics of advance refunding issue
- Timeline

Summary of the 2009 Series A Bonds

- In July 2009, the ISO issued $200 million in tax-exempt bonds through the California Infrastructure and Economic Development Bank to finance the (i) new headquarters building, (ii) computer hardware, software systems and office equipment, and (iii) various Bond reserves and to pay cost of issuance on the Bonds

- The Bonds were sold in a relatively high interest rate environment (compared to recent years) and during a difficult time for California issuers

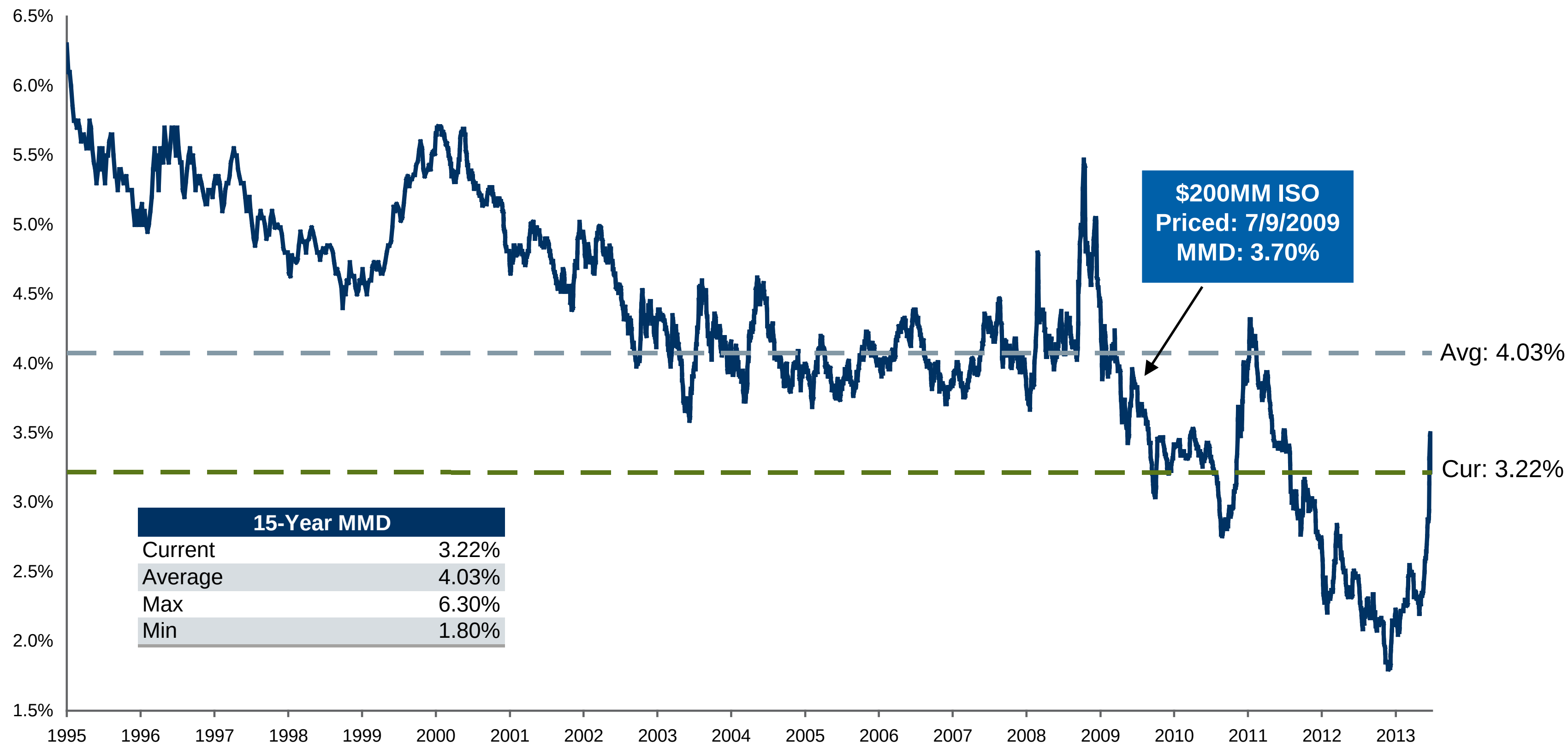
- All-in true interest cost of **5.88%,** average annual debt service of **$14.8 million** and sold with a five year call feature (2/1/2015 @ 100%)

- The 2009 Series A Bonds call feature now represents significant “value” to the ISO

Management has explored a number of options available to the ISO prior to the call date.

- Wait and execute a current refunding on call date, Feb-2015
  - ✓ Pro: No negative arbitrage or escrow costs
  - ✓ Con: Remain exposed to interest rate risk until February 2015
- Hedge the current level of interest rates with derivatives
  - ✓ Pro: Allows a partial lock of current interest rate levels
  - ✓ Con: Introduces a number of risk factors that could reduce the effectives of the hedge
- **Execute an advance refunding today**
  - ✓ **Pro: Eliminate interest rate risk and lock in savings**
  - ✓ **Con: Reduced savings due to negative arbitrage and escrow costs**

Despite a recent sell-off, the Municipal Markets Data Index[1] remains at attractive levels.



15-Year MMD	
Current	3.22%
Average	4.03%
Max	6.30%
Min	1.80%

[1] Municipal Markets Data Index is the accepted index of high grade municipal bonds

Executive Summary of Refunding Results

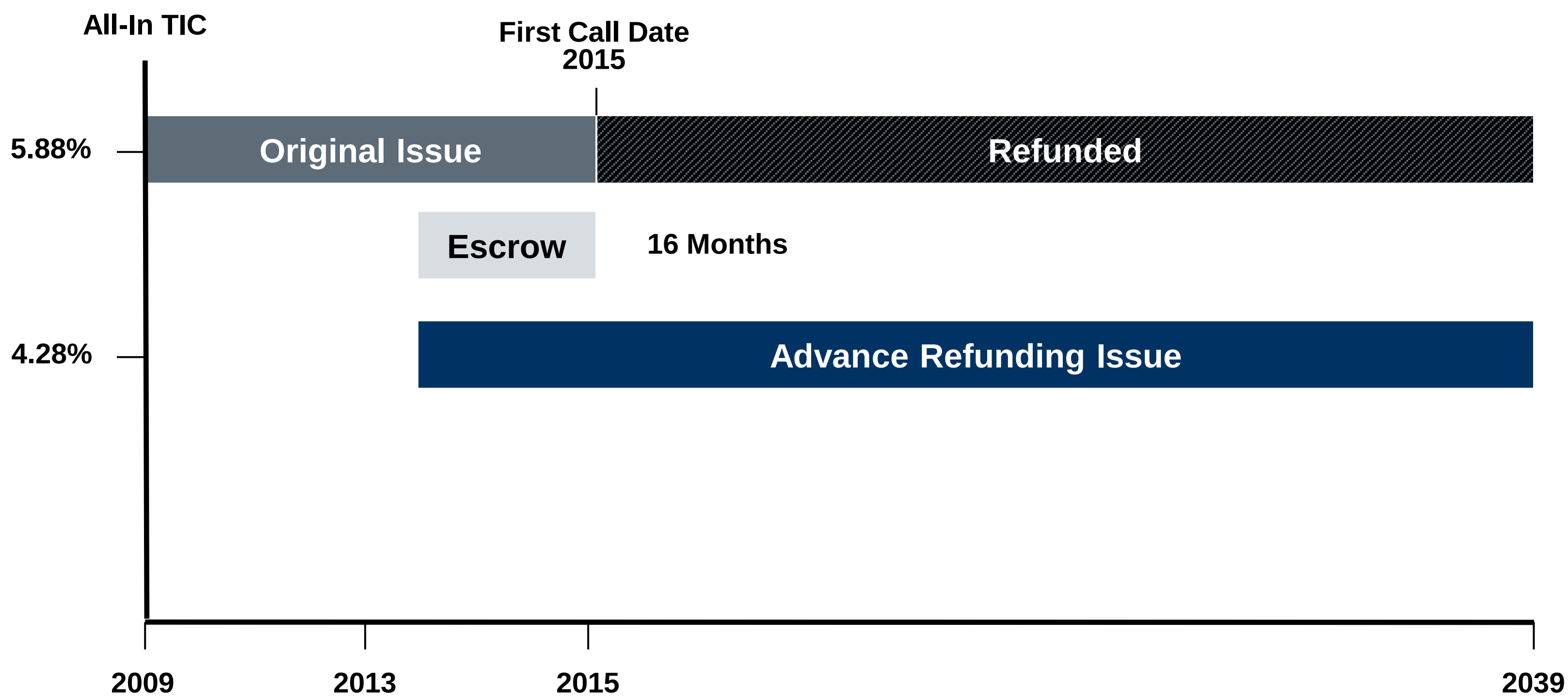
	Scenario 1: Advance Refunding Today	Scenario 2: Current Refunding in 2015 Current Rates
Par Amount	$189,270,000	$169,780,000
Par Amount of Refunded Bonds	$189,310,000	$185,480,000
Negative Aribitrage	($16,720,396)	N/A
Average Annual Gross Savings	$1,362,203	$2,507,889
PV Savings	**$21,505,388**	**$38,225,785**
PV Savings as % of Refunded Bonds	**11.360%**	**20.609%**
Arbitrage Yield	3.827%	3.722%
Escrow Yield	0.208%	N/A
All-in True Interest Cost	4.277%	4.153%

Sensitivity Analysis of Estimated Refunding Results

		Scenario 1: Advance Refunding Today	Scenario 2: Tax-Exempt Current Refunding in 2015
- 100 bps	Refunded Par	$189,310,000	$185,480,000
	Average Annual Gross Savings	**$2,287,427**	**$3,537,264**
	PV Savings	**$41,101,894**	**$60,701,043**
	PV Savings as % of Refunded Bonds	21.711%	32.726%
- 50 bps	Refunded Par	$189,310,000	$185,480,000
	Average Annual Gross Savings	**$1,810,235**	**$2,936,376**
	PV Savings	**$30,486,341**	**$47,404,379**
	PV Savings as % of Refunded Bonds	16.104%	25.558%
0 bps	Refunded Par	$189,310,000	$185,480,000
	Average Annual Gross Savings	**$1,362,203**	**$2,507,889**
	PV Savings	**$21,505,388**	**$38,225,785**
	PV Savings as % of Refunded Bonds	11.360%	20.609%
+ 50 bps	Refunded Par	$189,310,000	$185,480,000
	Average Annual Gross Savings	**$902,003**	**$2,066,547**
	PV Savings	**$12,940,821**	**$29,110,451**
	PV Savings as % of Refunded Bonds	6.836%	15.695%
+ 100 bps	Refunded Par	$189,310,000	$185,480,000
	Average Annual Gross Savings	**$181,500**	**$1,413,838**
	PV Savings	**$1,701,849**	**$18,471,523**
	PV Savings as % of Refunded Bonds	0.899%	9.959%

The ISO can take advantage of historically low interest rates by refinancing the 2009 Series A Bonds.

- An ***advance refunding*** offers significant savings despite $16.7 million of negative arbitrage and inefficiencies associated with the refunding escrow



An example of an advance refunding today with negative arbitrage and escrow inefficiencies:

New Bonds

- $189,270,000 Par Amount
- 4.988% Average Coupon
- 3.827% Arbitrage Yield
- 8/21/2013 Closing Date

Old Bonds

- $189,310,000 Par Amount
- 6.013% Average Coupon
- 5.463% Arbitrage Yield
- 2/1/2015 Call Date

Proceeds

Defeasance Cost

Pay Off Old Bonds on 2/1/2015

- $205,127,115 Defeasance Cost
- 0.208% Yield to Disbursement
- **$21,505,388** / 11.360% PV Savings
- **($16,720,397)** Negative Arbitrage / Escrow Inefficiencies

Management is planning on issuing the bonds with no debt service reserve fund.

- Investors are no longer demanding debt service reserve funds
  - Highly rated issuers
  - Ample cash reserves

- Initial meetings with investment bankers and rating agencies have gone well.

- 2009 debt service reserve fund (~$15 million) will be collapsed and deposited into 2009 project fund
  - Project fund currently has approximately $13 million balance
  - Continued to be used on capital project budget

The ISO could be ready to issue bonds in early August.

Previous Events	Date
RFP process to select underwriters	Late April
Formation of all interested parties group	May - June
Creation of bond documents	June - July
FERC Section 204 filing	June

Upcoming Events	Date
Board of Governors decision on debt issuance	July 11
CIEDB (I-Bank) Board decision on financing	July 23
Finalize bond documents	Late July
FERC decision on securities issuance under Sec. 204	~ Aug 2
Potential pricing of ISO bonds	Week of August 5

In conclusion, Management proposes that the Board approve the issuance of advance refunding bonds to refinance the 2009 Series A Bonds.

- At current rates, refinancing will generate approximately $21.5 million in present value savings over the life of the bonds.
  - Approximately $1.4 million per year lower debt service.

- While current bond issuance schedule allows for an early August pricing, Management will assess the current market and potential savings at that time.