

***MINUTES OF A REGULAR MEETING OF
BIG BEAR MUNICIPAL WATER DISTRICT
HELD ON THURSDAY, JULY 7, 2011***

CALL TO ORDER

President Suhay called the Open Session to order at 1:00 PM. Those in attendance included Director Murphy, Director Fashempour, Director Eminger, Director Smith, District Counsel Wayne Lemieux (via Skype), General Manager Scott Heule, Lake Manager Mike Stephenson, and Board Secretary Vicki Sheppard.

REPORTS

General Manager, Scott Heule reported that the last TMDL samples that were paid for by the District were done last month. He added that the TMDL Task Force has asked the District to keep sampling (at their expense) commenting that Jim Weber is out sampling today. He explained that the Task Force will be billed for everything including staff time, boat use, shipping, and laboratory analysis fees. Mr. Heule reported that the District is still working on the work-in-kind with the ACOE. He explained that they did not seem to have the Alum Treatment information and needed it forwarded to them along with the final invoice.

Lake Manager, Mike Stephenson reported on the weed census explaining that 139 out of 321 spots have been completed. He reported on the Carp Roundup commenting that there were 96 participants and 11,000 pounds of carp removed from the lake. He stated that weed treatments are almost at a close adding that the balance will be completed by the end of the week. He added that the lake has stratified and the Algae is virtually gone. Mr. Stephenson reported on the 4th of July weekend explaining that boat counts were at about 50% of last year's counts. President Suhay commented that the Resort Association is saying that counts for lodging and restaurants were up from last year.

Director Eminger congratulated Mr. Stephenson on a successful Carp Roundup. Director Murphy commented that he is still working on HR issues associated with the potential acquisition of the DWP by eminent domain.

President Suhay reported that the Closed Session scheduled for today is being cancelled and will be re-scheduled in the future.

APPROVAL OF CONSENT CALENDAR

Upon a motion by Director Eminger, seconded by Director Smith, the following consent items were unanimously approved:

- Minutes of a Regular Meeting of June 16, 2011
- Warrant List Dated July 1, 2011 for \$193,806.37
- Approval of CSDA By-laws Amendments

RECEIVE A REPORT FROM FIELDMAN ROLAPP & ASSOCIATES, THE DISTRICTS' FINANCIAL ADVISOR, CONCERNING BOND REFINANCING ASSOCIATED WITH THE ACQUISITION OF THE CITY OF BIG BEAR LAKE, DEPARTMENT OF WATER & POWER

Mr. Heule reported that Fieldman Rolapp & Associates has been studying both the Districts' and DWP finances and bond obligations since being authorized to proceed at the Board meeting on May 19, 2011. He explained that they have reviewed a variety of refunding options for District and DWP bonds individually and collectively and have identified both cash flow and present value savings for several scenarios of maturity dates. He commented that the Ad Hoc Committee

met on Wednesday, July 6th, where Robert Porr reviewed their analysis and projections on the refunding of DWP and MWD bonds. He introduced Mr. Robert Porr who made a Power Point presentation (see attached). Mr. Porr went over restructuring considerations, existing annual debt service, debt refinancing structures, the 25 year wrapped refunding structure, the 30 year wrapped refunding structure, and refinancing comparisons. He reported that both of these options keep the maturity dates for the DWP State Revolving Fund maturity date the same as currently and adds two years to the maturity date of the MWD COP bonds (from year 2034 to 2036). He added that both the 25 year and the 30 year options provide significant cash flow savings overall. He stated that the projected MWD Lake Management portion of the debt service with the 25 year loan is about \$9,500 more than and the 30 year term debt service is \$8,000 less than the \$397,000 existing debt service. He explained that overall the cash flow savings on the 25 year term is projected to be \$1,541,713 per year through FY 2021-22 and on the 30 year term the cash flow savings is projected to be \$1,686,722 per year through FY 2021-22. He added that after that date there is a negative cash flow savings because the bulk of the refunded loans consists of the DWP 1996 bonds that would have defeased in FY 2021-22. He reported that the net present value savings for the 25 year term is \$480,623 and for the 30 year loan it is \$120,474. He added that based on these results the ad hoc committee is recommending that the 25 year wrapped scenario be pursued and that the cash flow savings be put back into the water system for infrastructure replacement for fire flow protection. Mr. Porr also discussed the different credit ratings "AAA", "AA", and "A" explaining the benefits of the better ratings and a unified credit that could raise the credit rating to "AA" adding that investors are very sensitive to credit ratings. He also discussed the differences and benefits of having cash verses paying off debts. He explained that investors will not purchase a municipal bond from anyone without a high credit rating. Director Smith asked if credit agencies would rather see cash or a reduction in debt. Mr. Porr stated that he believes they would rather see cash explaining that cash also gives you flexibility for capital projects. President Suhay commented that customers may inquire if their water bills will go down with the acquisition but he explained that most of the savings will go into infrastructure.

No formal action is recommended at this time but it is the consensus of the Board that if the acquisition of the City of Big Bear Lake Department of Water & Power goes through, the 25 year wrap refunding structure should move forward.

CONSIDER AUTHORIZING UNDERWRITING SERVICES FOR BOND SALE ASSOCIATED WITH ACQUISITION OF THE CITY OF BIG BEAR LAKE, DEPARTMENT OF WATER & POWER

Mr. Heule explained that Fieldman Rolapp & Associates solicited proposals on behalf of the District for bond underwriting services from three firms, Bank of America Merrill Lynch, CITI Group Global Markets Inc. and Stone and Youngberg. He stated that providing the acquisition occurs, the services of an underwriting firm will be necessary to structure the refunding to include DWP, MWD or both agencies' bonds, what kind and amount of reserves are needed, type of bonds to issue whether certificates of participation or revenue bonds and whether or not bond insurance should be included. He stated that they will also solicit and help the District secure credit ratings from rating agencies (Moody's, Fitch and or Standard & Poor's) and market the bonds to both retail and institutional investors. He added that all three organizations have a proven track record in successfully underwriting bonds for California water agencies.

Mr. Heule reported that the DWP Acquisition Ad Hoc committee has met and discussed the three proposals with Fieldman Rolapp & Associates. He reported that they have been advised that the fees proposed by the underwriters are all very competitive and that the fees should not be the sole determinant in the selection process. He explained that based on each organizations

understanding of the Districts' objectives, the unique situation posed by the eminent domain acquisition and suggested bond financing approach discussed in each of the proposals the Committee recommends selecting Citi Group Global Markets Inc. to perform underwriting services. He stated that the proposed fee for Citi Groups' work is \$112,589.67 based on \$29.5 million in financing. He added that the Committee also recommends that authorization to proceed be conditioned on the Board making a final decision to move forward with the acquisition, probably at the July 21, 2011 meeting. Mr. Porr explained the underwriting services that Citi would furnish if selected including: Purchase bonds to sell to the community, select the underwriting firm, and help the District structure the entire deal. He added that they specialize in water district bond issues. He explained that both Citi Group and B of A Merrill Lynch would serve the District extremely well but out of the two, they would recommend Citi Group. Director Smith clarified that they would buy the bonds and then turn around and sell them. Mr. Porr stated that they would take the bonds in their entirety and then sell them.

No formal action is recommended at this time but it is the consensus of the Board that if the acquisition goes through that Citi Group be selected for underwriting services for bond sale associated with the acquisition of the City of Big Bear Lake Department of Water & Power.

PUBLIC FORUM

No comments were made

ANNOUNCEMENTS

Mr. Heule explained that there is still a lot of work to do between now and the next Board meeting commenting that Dani McGee and DWP and MWD staff are looking at numerous HR issues.

DIRECTOR COMMENTS

Director Eminger commented "I would like to thank Caltrans and Flatiron Construction for getting Highway 330 open and our new bridge open - quite a job. With two heavy winters, our valley and all the businesses were hurting. Now I would like to fault Caltrans for, after agreeing to, not providing a bridge over the old dam. Division of Dams and Safety said that the old bridge is unsafe. We have known this was going to happen for some time and planned for a small bridge for us to work on the dam when necessary and be a pedestrian and bicycle crossing. We had more than one plan engineered to Caltrans specifications. We have spent almost \$200,000 and hundreds of man-hours. We met every deadline and every change order - sometimes weekly and sometimes hourly. Now we are getting nothing. Thanks a lot Caltrans." John Eminger, MWD Board Member.

ADJOURNMENT

There being no further business, the meeting was adjourned at 2:13 P.M.

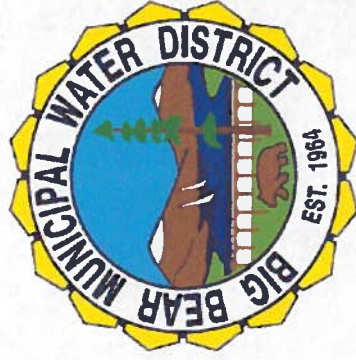
NEXT MEETING

Open Session at 1:00 P.M.
Thursday, July 21, 2011
Big Bear Municipal Water District
40524 Lakeview Drive, Big Bear Lake, CA



Vicki Sheppard
Secretary to the Board
Big Bear Municipal Water District

(SEAL)



Big Bear Municipal Water District



Board Meeting Presentation

July 7, 2011

Presented by
 **FIELDMAN | ROLAPP**
& ASSOCIATES

FRA127606



Overview

- The District is contemplating the acquisition of the City's Water System
- Through the acquisition of the Water System, the District will assume all DWP's debt obligations
- District has outstanding its 2003 Certificates of Participation
- Most DWP and District debt obligations need to either be prepaid or refinanced for credit and financial reasons as part of the acquisition



Restructuring Considerations

◆ Refinance

- ◆ DWP 1996 Water Refunding Bonds - \$26,855,000 outstanding
- ◆ DWP SRF Loan - \$1,360,300 outstanding
- ◆ 2003 Certificates of Participation- \$5,160,000 outstanding

◆ Transfer

- ◆ DWP 2010 USDA Bonds - \$3,628,000 outstanding
- ◆ DWP 2011 USDA Bonds - \$5,000,000 outstanding

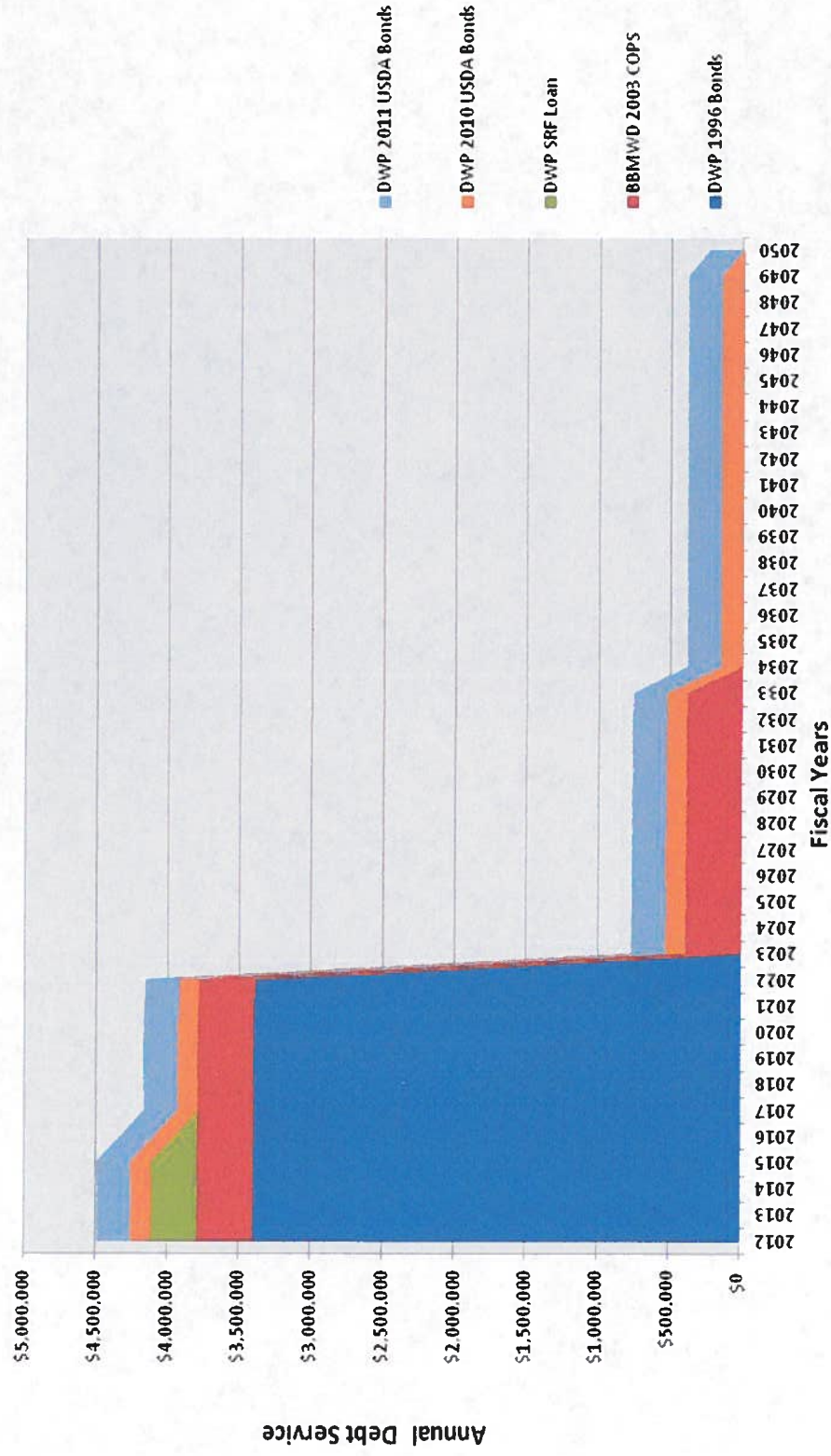
◆ Reasons for refinancing

- ◆ Credit and financial requirements
- ◆ New covenants
- ◆ Cash flow savings
 - Build up reserves
 - Pay as you go capital improvement projects

Existing Annual Debt Service



Total Combined Debt Service = \$61,835,991



Debt Refinancing Structures

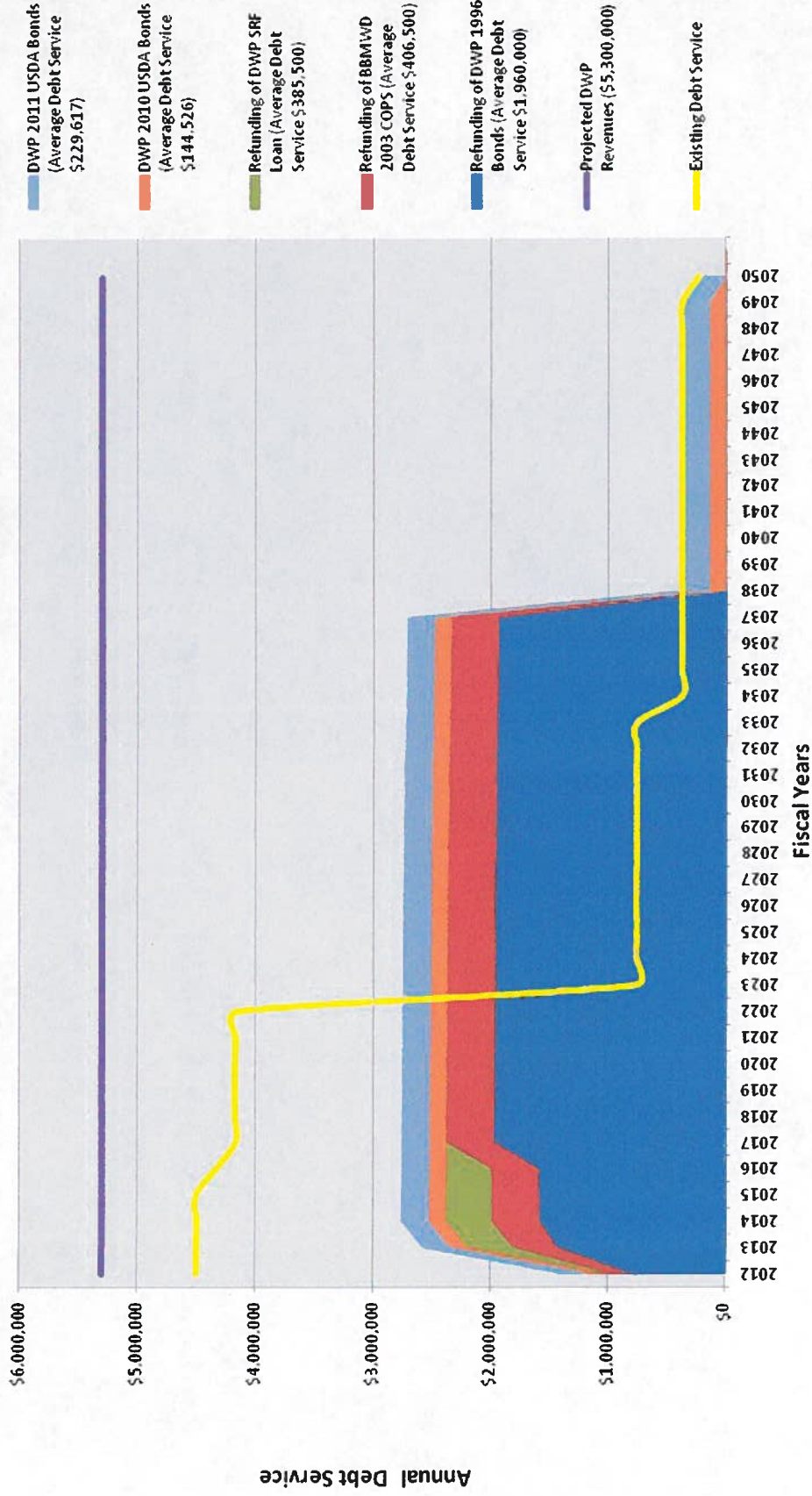


- ◆ District staff asked for analysis of different refinancing structures
 - ◆ Keeping existing interest and principal payment dates
 - ◆ 15 year level refunding
 - ◆ 20 year level refunding
 - ◆ 25 year level refunding
 - ◆ 30 year level refunding
 - ◆ **25 year wrapped refunding**
 - ◆ **30 year wrapped refunding**

25 Year Wrapped Refunding Structure



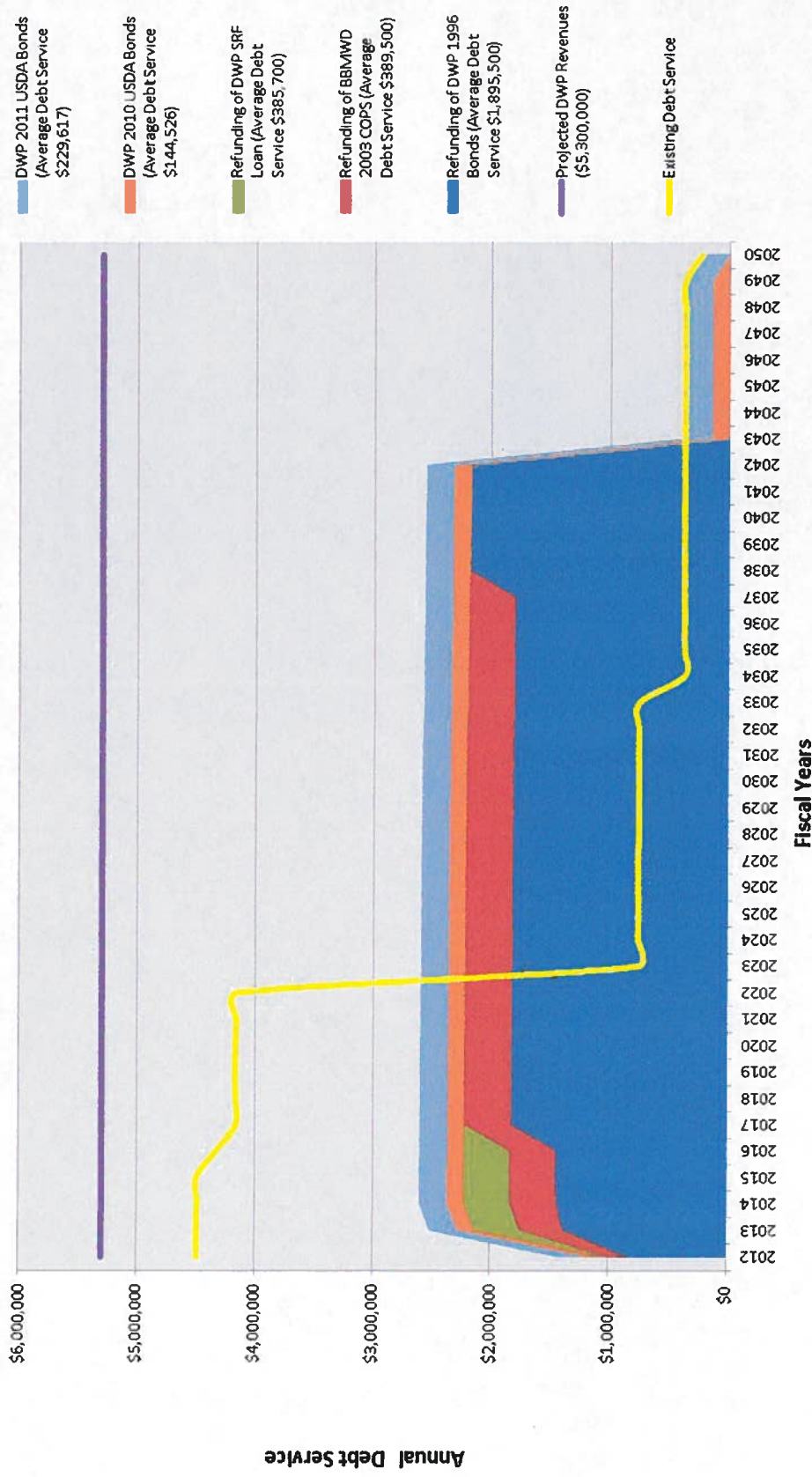
Total Combined Debt Service = \$74,514,026



30 Year Wrapped Refunding Structure



Total Combined Debt Service = \$81,815,569





Refinancing Comparisons

	25 Year Wrapped Refinancing	30 Year Wrapped Refinancing
Par Amount	\$32,890,000	\$33,135,000
Maximum Annual Debt Service	\$2,404,735	\$2,344,668
Average Annual Debt Service	\$2,391,783	\$2,237,124
Average Annual Debt Service with USDA Bonds Debt Service	\$2,765,926	\$2,611,267
True Interest Cost	5.05%	5.24%
Final maturity of refunding of DWP 1996 Water Bonds	2036	2041
Final maturity of refunding of BBMWWD 2003 COPS	2036	2036
Final maturity of refunding of DWP SRF Loan	2015	2015
Net Present Value Savings	\$480,623	\$120,474
Percentage savings	1.44%	0.36%
Average Cashflow Savings through FY 2021-22	\$1,541,713	\$1,686,722
Average Cashflow Savings from FY 2022-23 through life of bonds	-\$2,078,872	-\$1,811,606
Projected Water System Annual Net Revenues	\$5,300,000	\$5,300,000
Projected Lake System Annual Net Revenues	\$500,000	\$500,000
Average Debt Service Coverage with USDA Bonds Debt Service with Water System Net Revenues	192%	203%
Average Debt Service Coverage with USDA Bonds Debt Service with Water System Net Revenues and Lake System Net Revenues	210%	222%



Recommendation

- ◆ Ad Hoc Committee recommends moving forward with 25 year wrap refunding structure
- ◆ Both structures result in paying more interest over the life of the borrowing
- ◆ *However each structure generates;*
 - ◆ Significantly lower annual debt service through FY 2021-22
 - ◆ Positive annual cash-flow in the early years
 - ◆ Better nexus between useful life and borrowing term
- ◆ Ad Hoc Committee recommends using excess cash-flow towards infrastructure replacement for fire-flow