California Debt and Investment Advisory Commission

Successful Strategies for Financial Planning and Debt Management

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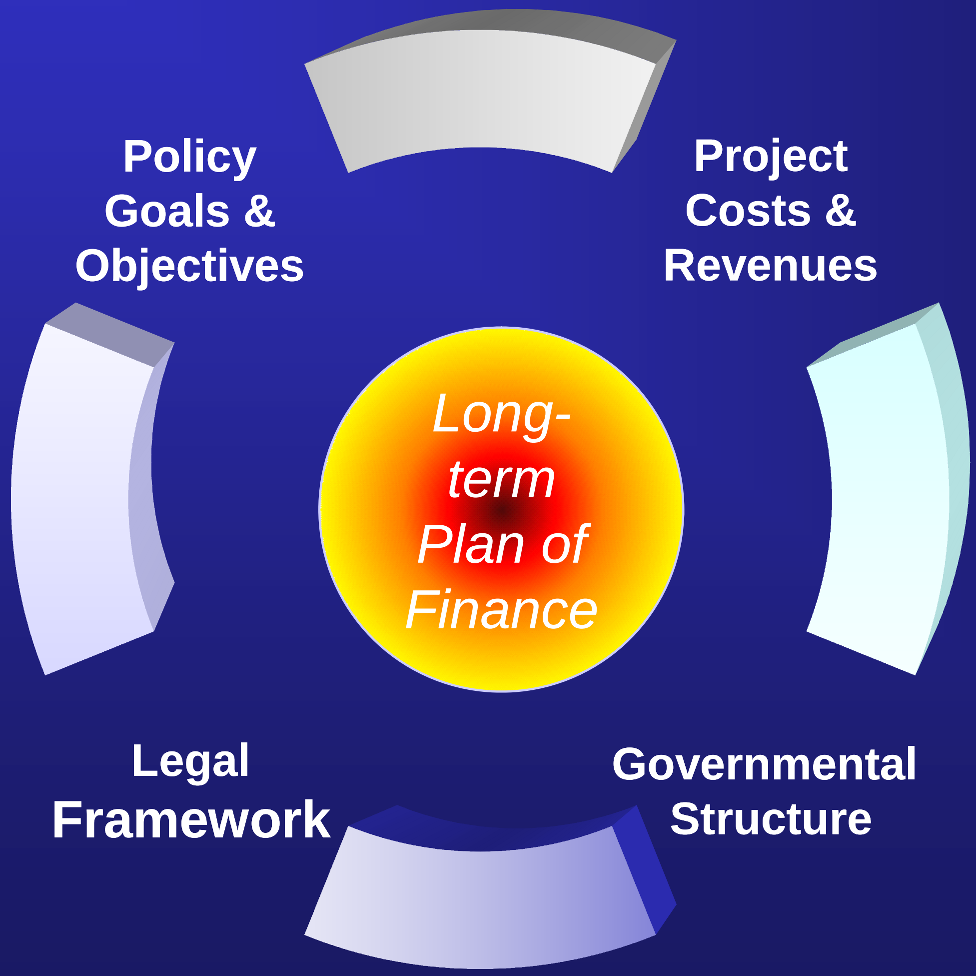
Financial Planning as a Long-Term Vision

"Vision without action is a daydream. Action without vision is a nightmare."

Japanese Proverb



Long-Term Plan as the Cornerstone

- Establishes the rationale for a comprehensive debt structure and periodic transactions
  - The cornerstone for future debt transactions and current hedging strategies

Long Term Financial Plan →
- Driven by project readiness
- Transparent equity across programs
- Pay-go used first, then borrowing if needed

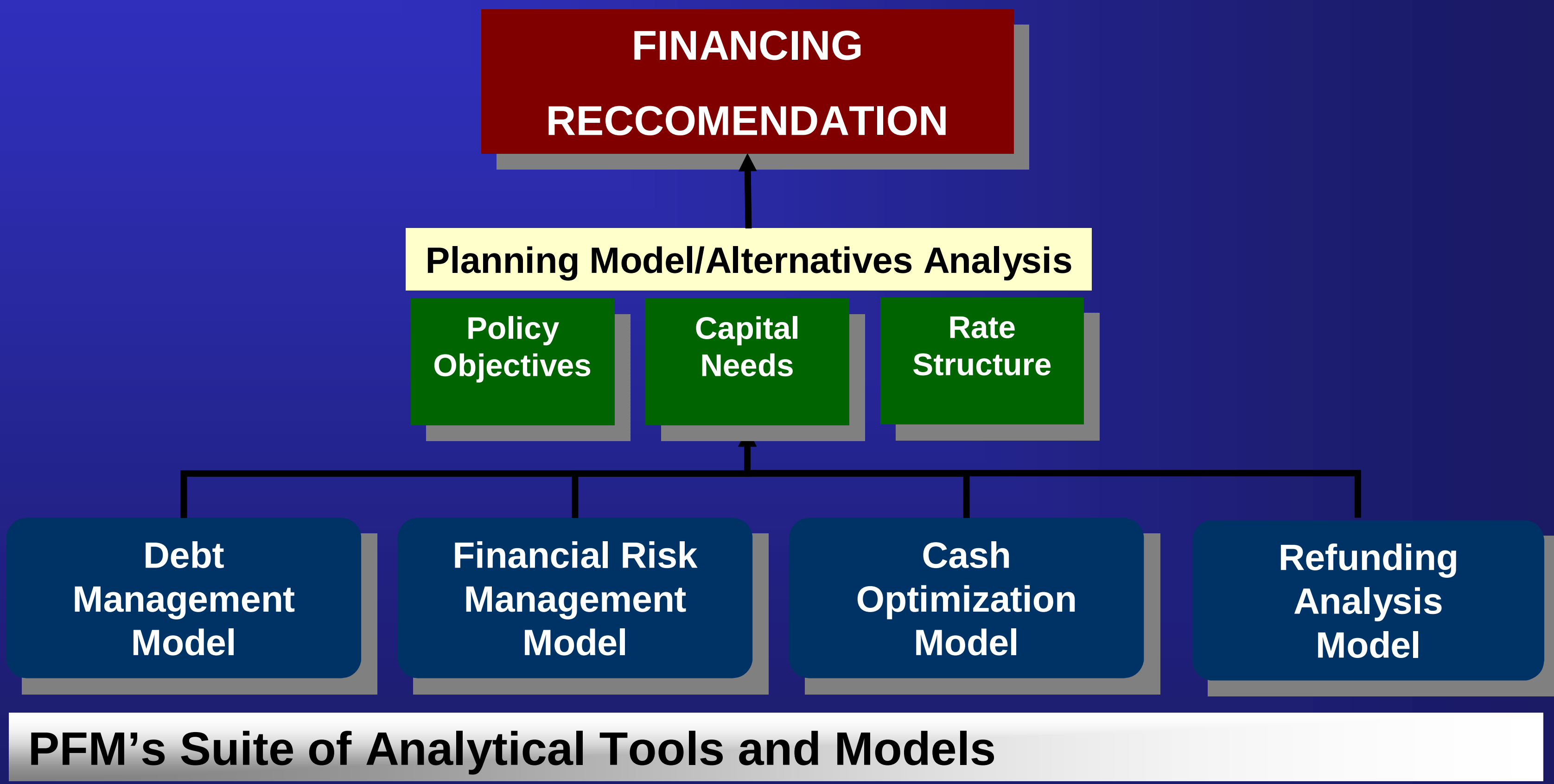
Debt Structure Optimization →
- Optimizes program flexibility
- Minimizes borrowing costs
- Preserves cash for pay-go capital requirements

Transaction Execution →
- Bond documents designed for future flexibility
- Coverage land reserves levels to meet market requirements
- Bond financing executed in 12 weeks

Program Delivery →
- Accelerate project construction as needed
- Maintain equity across programs

Elements of the Financial Plan

- The Financial Plan introduces a broad range of analytic services



Who Cares?

- Governing Bodies
  - Long-term road map establishes a sense of "ownership"
  - Oversight – stakeholders
- Taxpayers/Ratepayers
  - How will taxes/fees be used?
  - Any tax/fee increases needed to complete program?
- Investors want to know:
  - How much debt issued now?
  - Additional debt to complete program? When?
  - Ability to maintain credit quality

Who Cares?

- Rating Agencies want you to…
  - Demonstrate debt capacity and affordability to meet planned borrowings
  - Demonstrate a rational plan to meet upcoming capital needs and the role that additional borrowing will play

"Fitch believes that debt affordability is best viewed in the context of a comprehensive assessment of capital needs. Although a government may not have the financial or operational means to fund all desired projects, identifying those projects creates a basis for prioritizing and seeking possible funding sources for them. Quantifying the amount of debt the tax base can support enables an entity to determine the scope and limits of immediate, medium-term, and long-term capital plans."

- FitchRatings To Bond or Not To Bond: Debt Affordability Guidelines and Their Impact on Credit 6/21/2005

Sample Results

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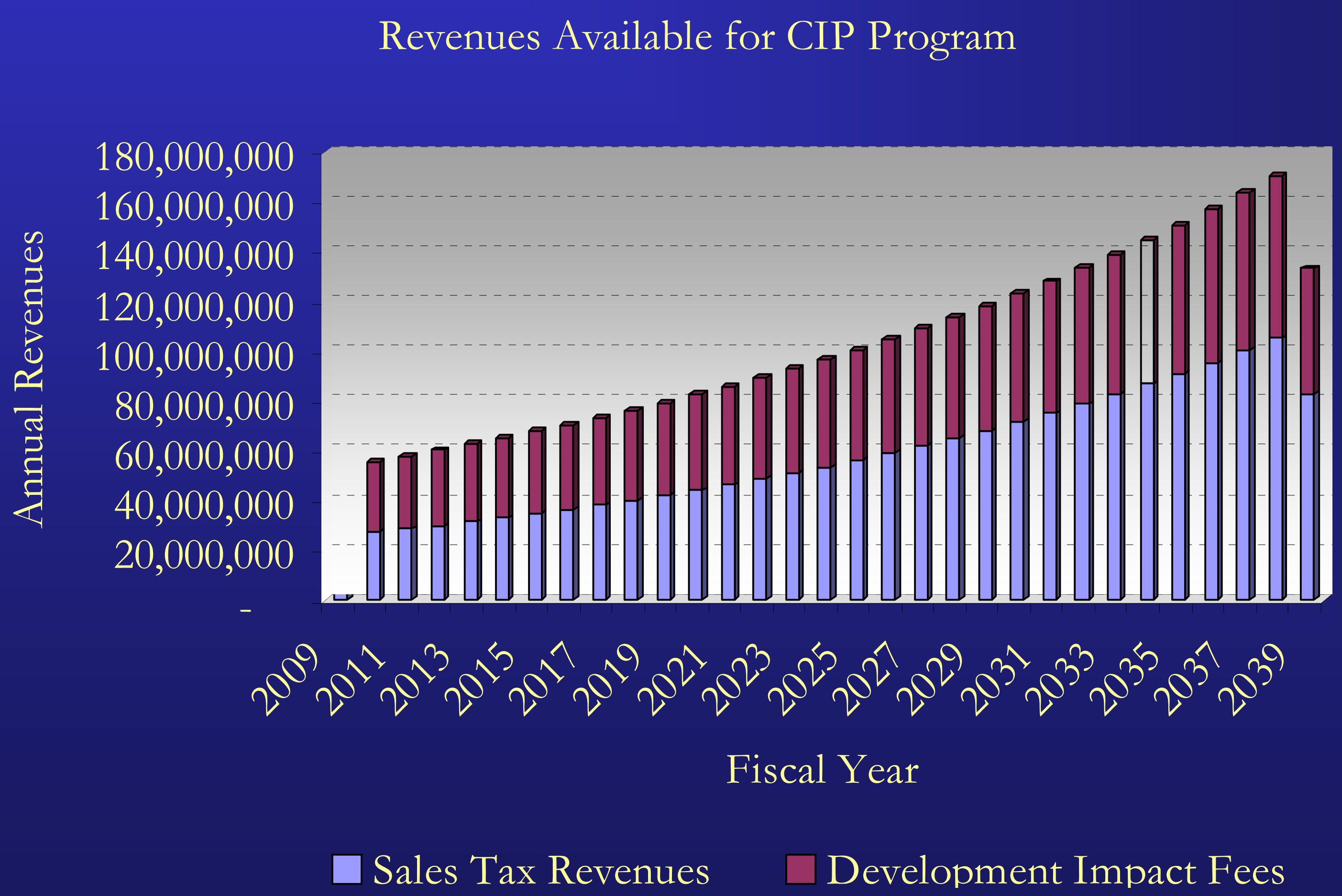
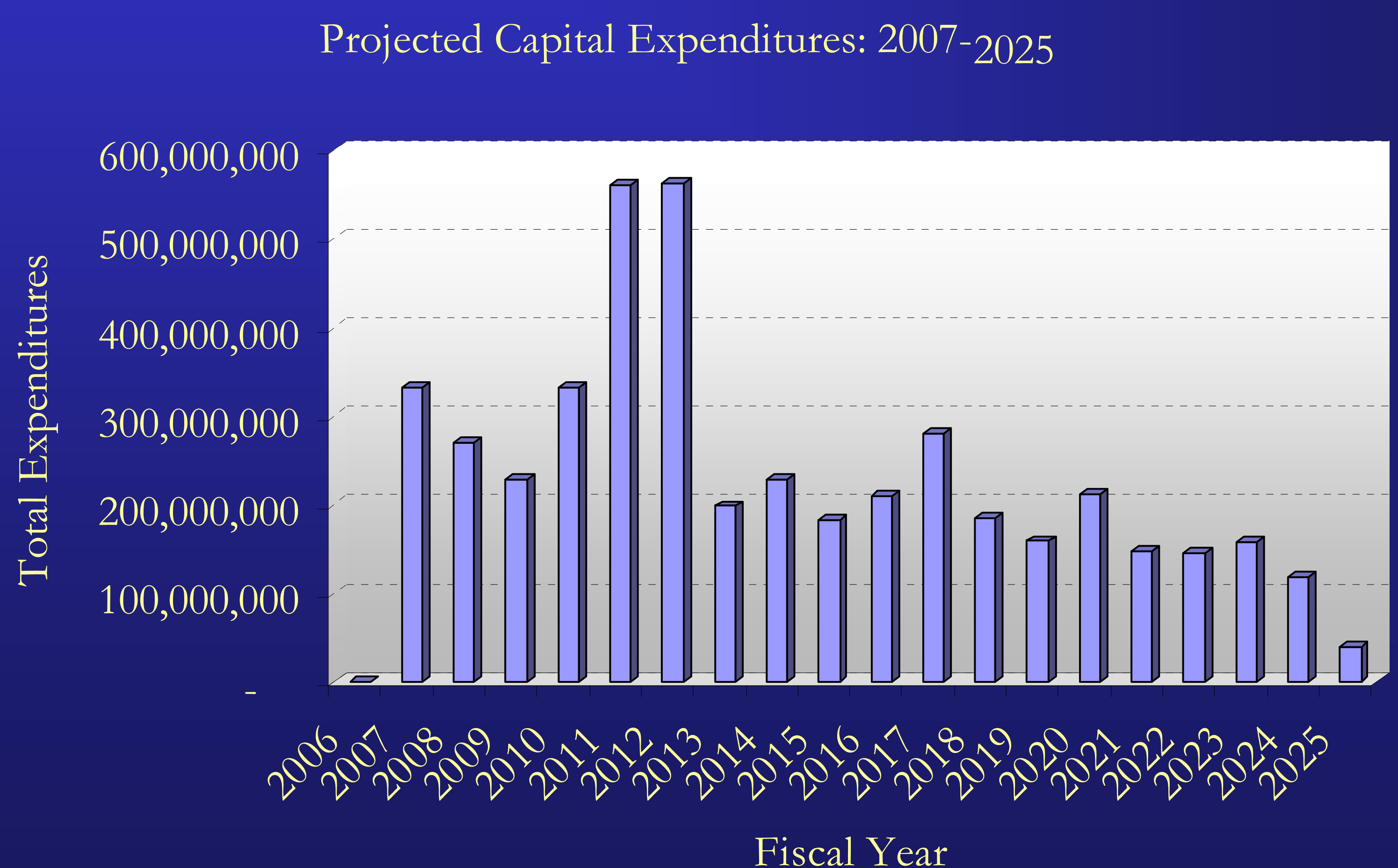
Total CIP Revenues

- Total CIP revenues through 2039 = $3.11 billion
  - Sales tax revenues = $1.76 billion
  - 100% DIF revenues = $1.35 billion



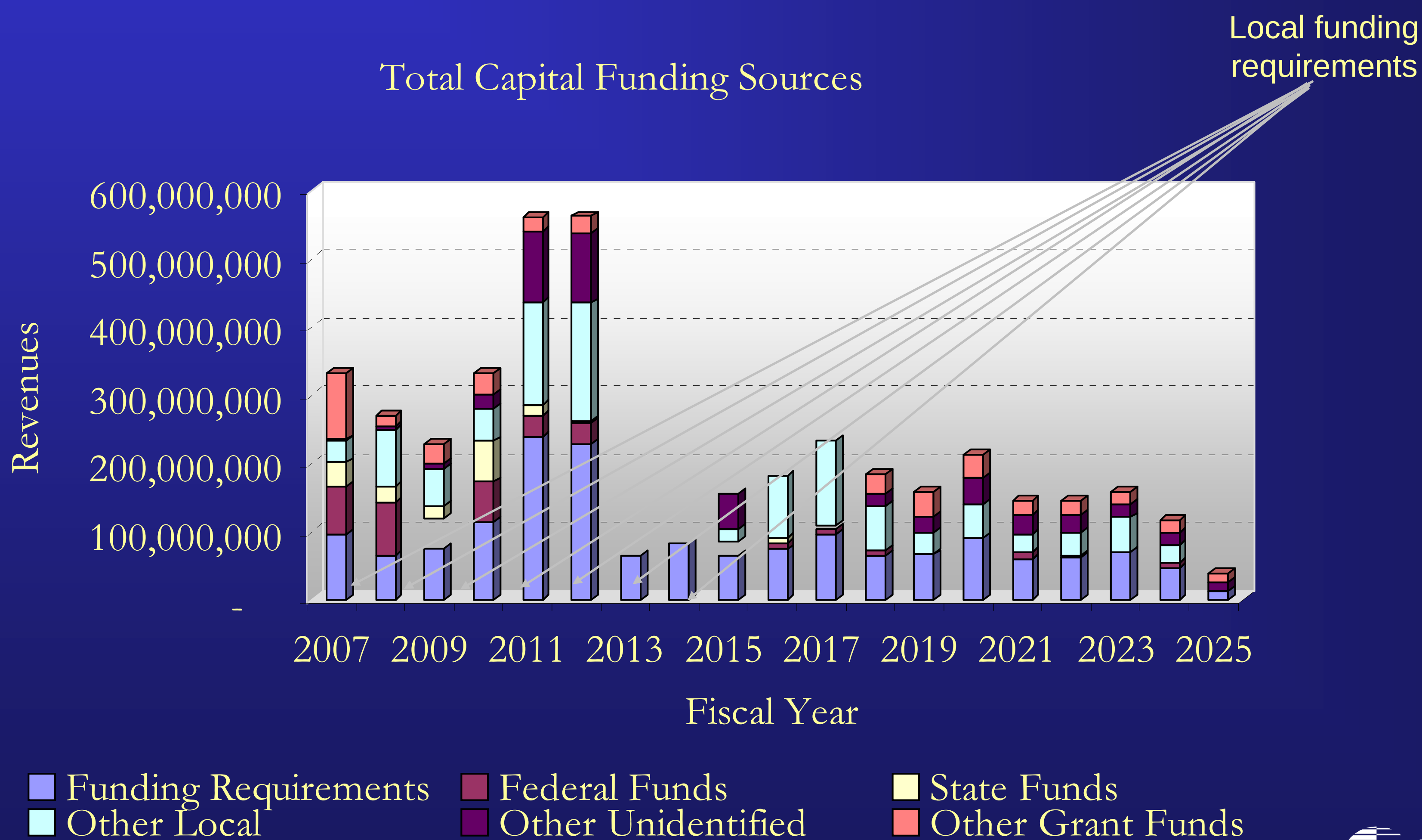
Capital Expenditures

- Capital expenditures are estimated to total $4.5 billion through 2025
  - 2007 – 2015 = $2.9 billion



Capital Funding Sources

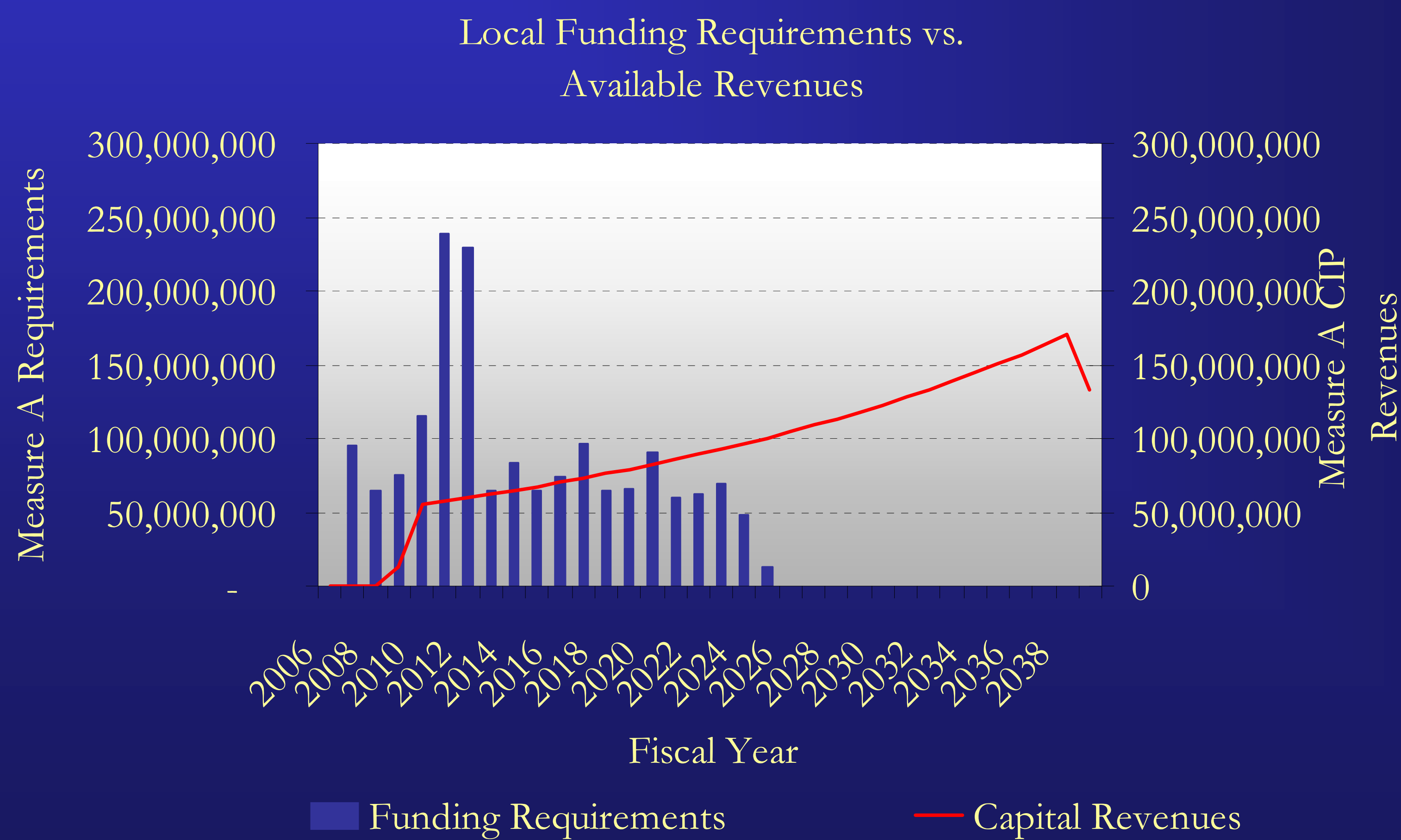
- Local funding requirements are front loaded
- “Other” unidentified funds = $1.5 billion of total program revenues



Local Capital Funding Requirements

- ➢ Local funding requirements total $1.67 billion through 2025
  - ❖ 2007 – 2015 = $1.03 billion

- ➢ Local funding requirements outpace available revenues and requires bonding



Capital Financing Plan – Local Contribution

- Bonding strategy is introduced to meeting construction schedule
  - $1.25 billion in bonds are required through 2025

Capital Financing Plan – Borrowing Needs

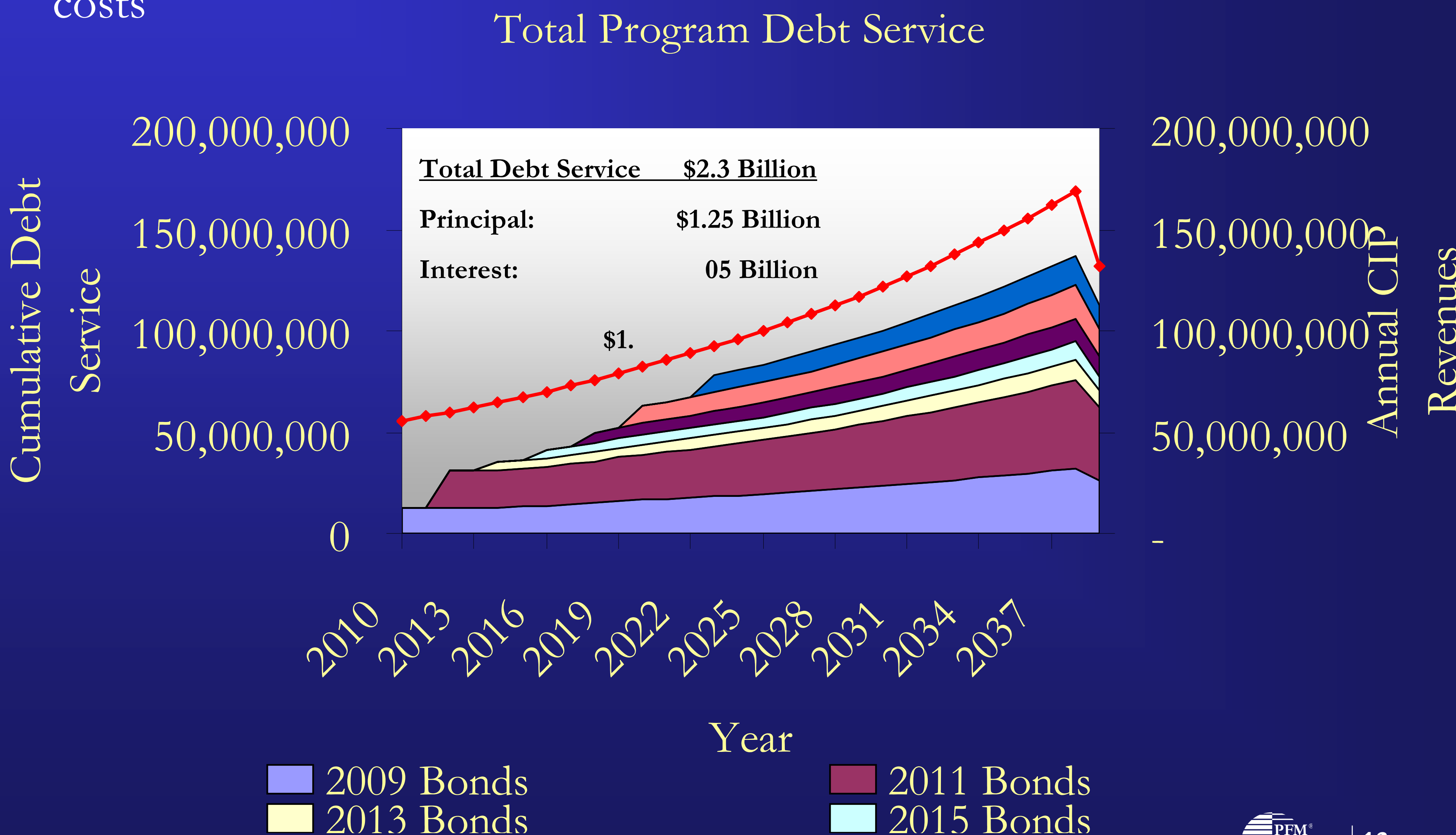
- Detailed forward-looking borrowing needs provides context for hedging and structuring strategies

Bond Issuance Overview

Year	Issuance Amount
2007	$104,545,000
2008	$68,530,000
2009	$318,200,000
2011	$389,930,000
2013	$87,985,000
2015	$79,750,000
2017	$104,225,000
2019	$146,120,000
2022	$126,705,000
TOTAL	$1,425,990,000
TOTAL Net of refinancing	$1,252,915,000

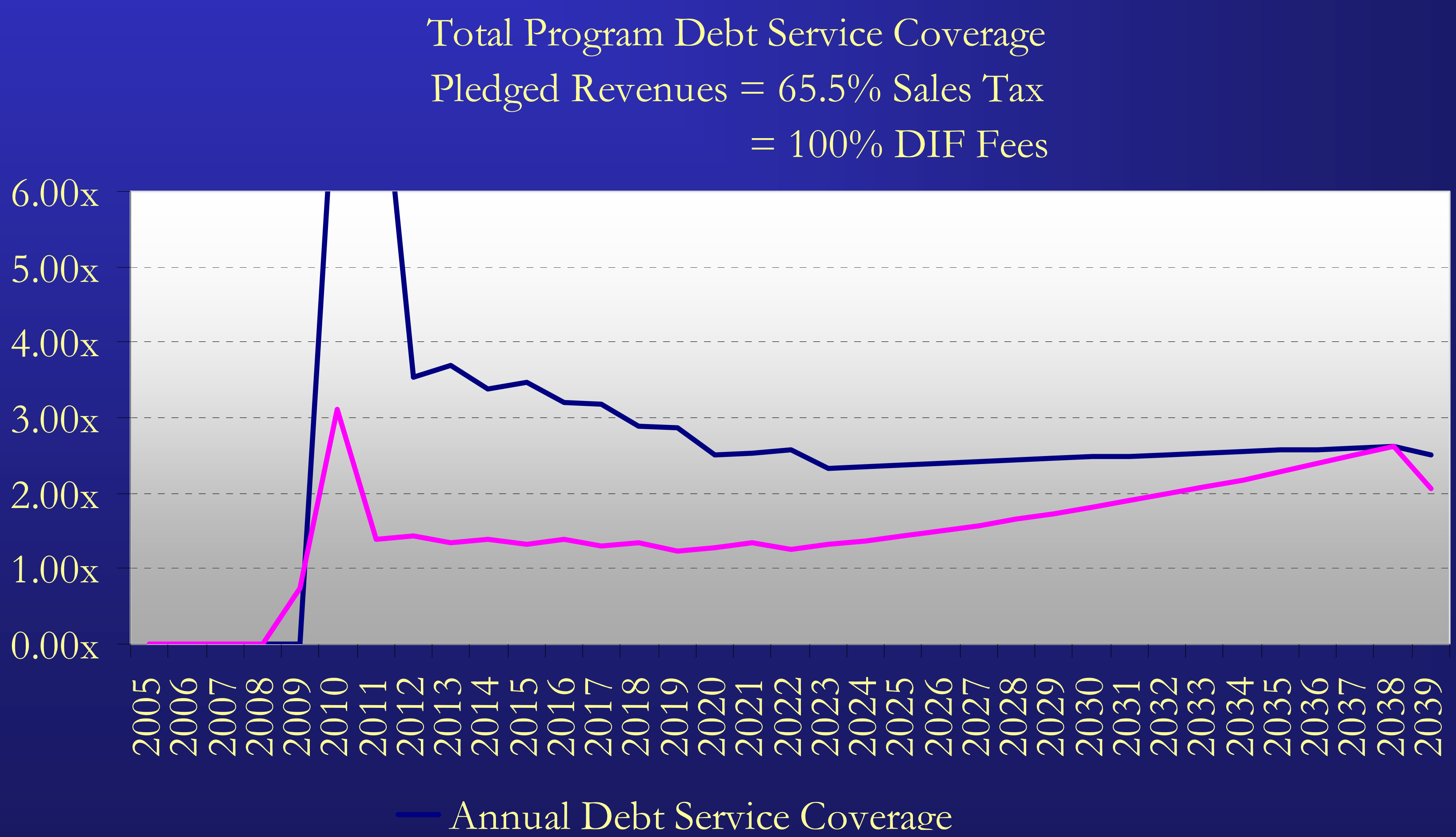
CIP Borrowing Costs

- **Policy consideration**: accelerate projects vs. pay more interest costs



Debt Service Coverage

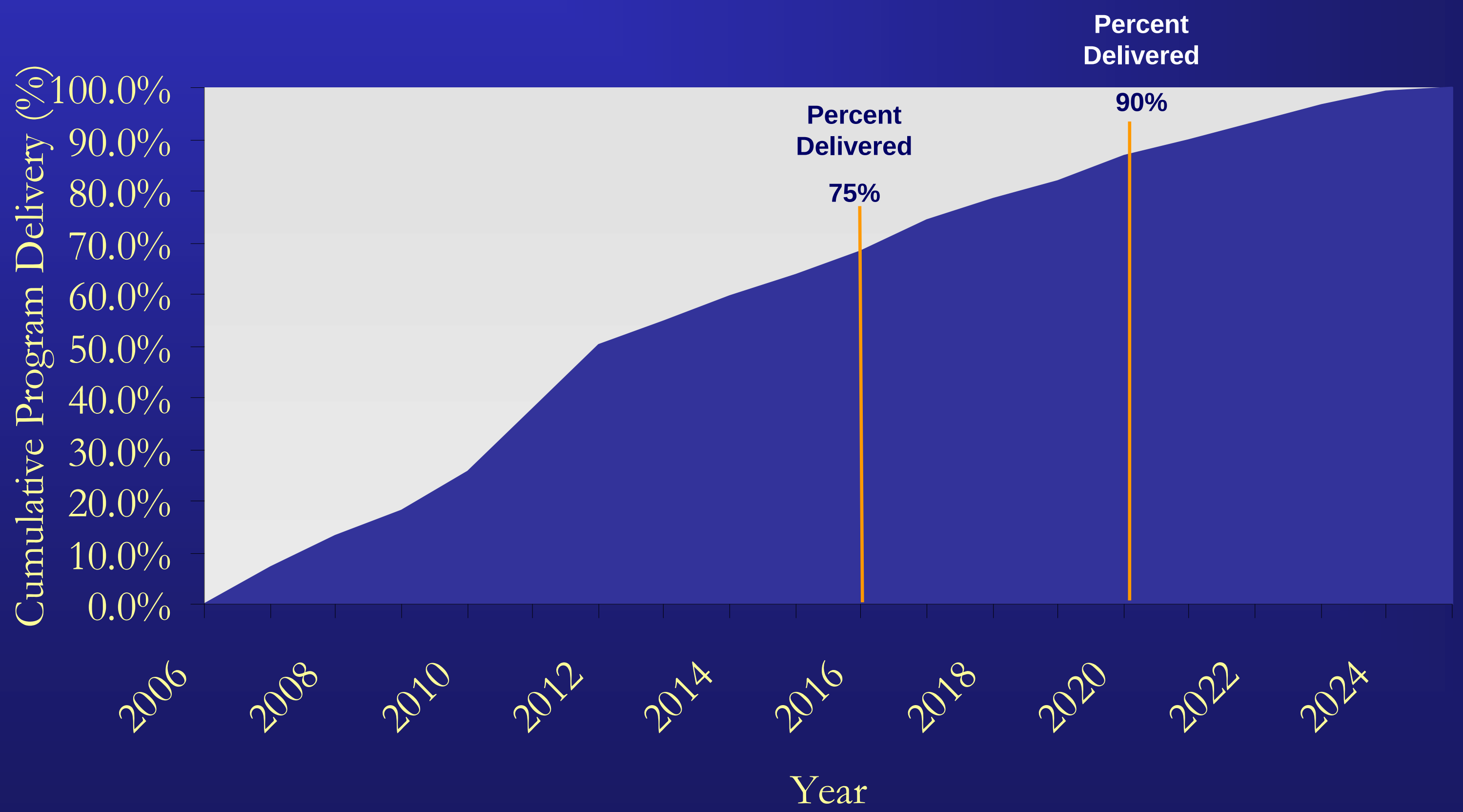
- **Policy consideration:** Sacrifice highest ratings and price competitiveness vs. accelerate projects



Program Delivery – With Bond Financing

- Bond financing costs $1.05 billion in interest costs but allows the program to be accelerated with 75% delivered by 2017 and 90% delivered by 2021

Timing and Amount of Program Delivery
$4.5 Billion Capital Program

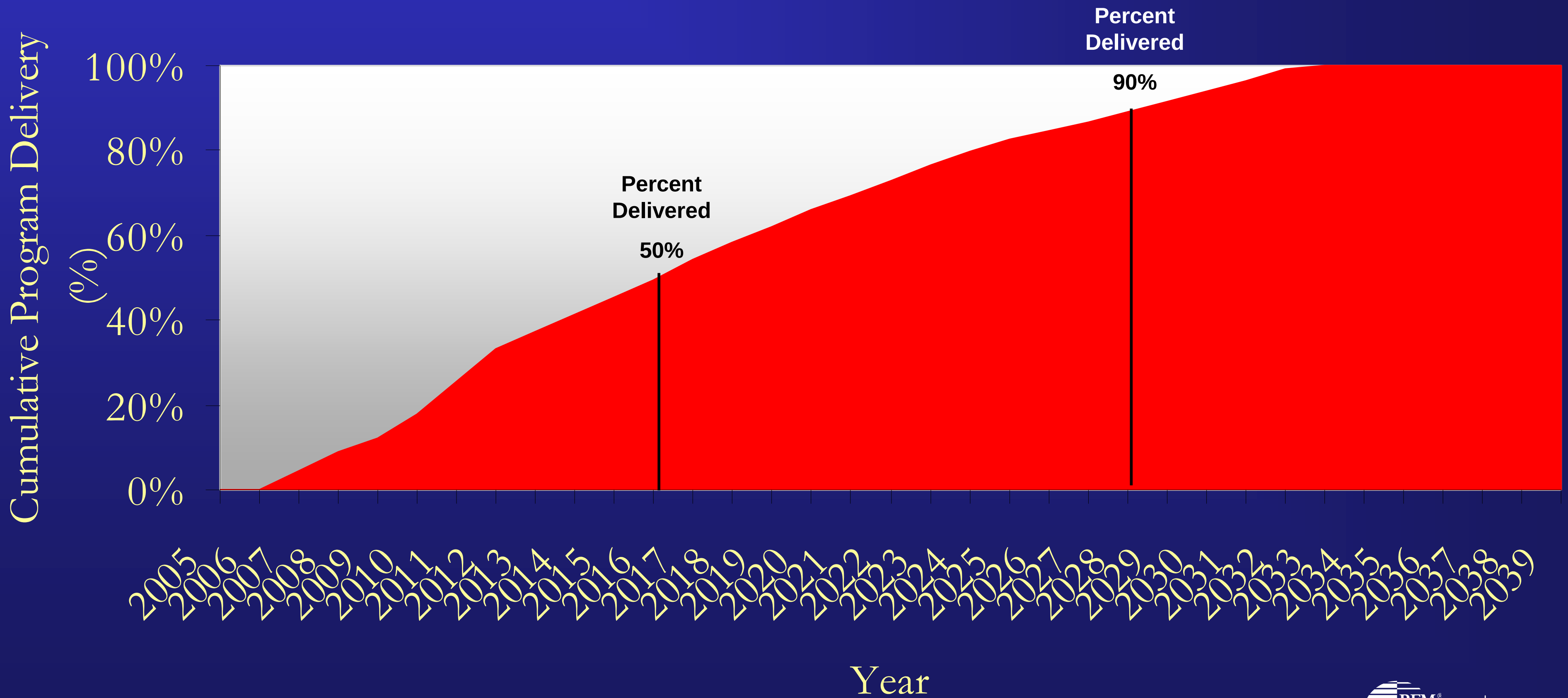


Program Delivery – Without Bond Financing

- 100% pay-go financing delays program implementation and related transportation benefits and results in $500 million in increased construction inflation costs

Timing and Amount of Program Delivery - No Bonds

$5.0 Billion Capital Program



INVESTMENT OPPORTUNITIES & ON GOING CIP MANAGEMENT

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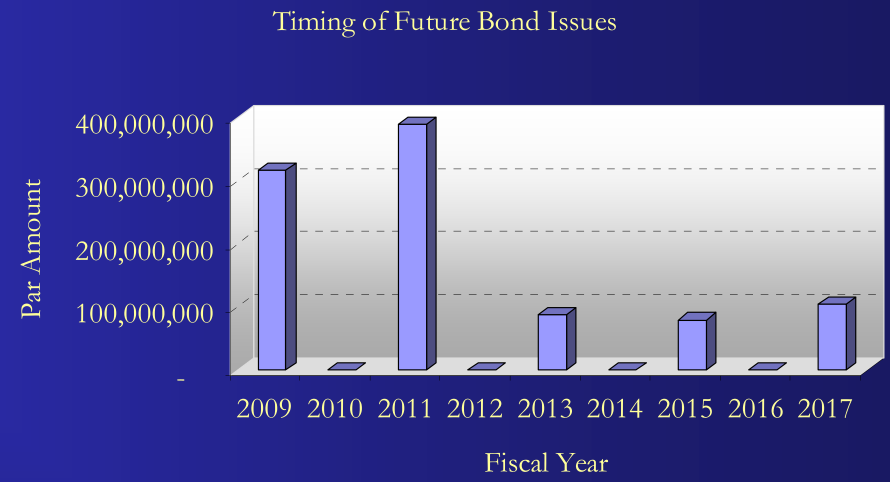
Investment Opportunities

- The Tax Code and Treasury Regulations provide for several exceptions to the arbitrage rebate requirements including:
  - The spending exceptions:
    - 6-month spending exception
    - 18-month spending exception
    - 2-year spending exception



- DSRF strategies can maximize available funds with the use of surety policies and can be used to offset negative arbitrage in construction fund

- Borrowing costs can be lowered and risk effectively managed with long-term asset-Liability strategy (i.e. balancing short-term assets with short-term liabilities)

On-Going Management of CIP

- Good long-range financial plan allows for . . . .
  - ✓ Proactive vs. reactive management
  - ✓ Methodology for capital replacement or capital maintenance
  - ✓ Continual dialogue with stakeholders
  - ✓ Responsiveness to market opportunities
  - ✓ Financial flexibility