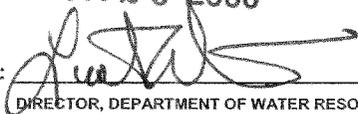




NOTICE TO STATE WATER PROJECT CONTRACTORS

NUMBER: 08-05

DATE: JUN 26 2008

SUBJECT: Water System Revenue
Bonds, Series AEFROM: 
DIRECTOR, DEPARTMENT OF WATER RESOURCES

The Department of Water Resources (the "Department") was able to take advantage of low interest rates to refund certain outstanding bonds. The refunding allowed the Department to realize significant savings in annual debt service payments. The summary of benefits is as follows:

Refunding Summary ¹	
Principal Amount of Series S and U Bonds Refunded	\$65,550,000
Net Present Value Savings	\$5,013,119
Present Value Savings as a % of Refunded Bonds	7.648%
Principal Amount of Series S, U and AB Bonds Refunded	\$250,375,000
Net Present Value Savings	13,942,341.95
Present Value Savings as a % of Refunded Bonds	5.569%

1. Excludes Refunding of Commercial Paper and Bond Anticipation Bonds.

The bonds were priced on April 23, 2008 and closed on May 1, 2008. The following outstanding Water System Revenue Bonds were refunded:

Water System Revenue Bonds Refunded	Amounts
Series S - 2008 through 2022	\$62,050,000
Series U - 2009 through 2010	\$3,500,000
Series AB - 2020 through 2029	\$184,825,000
Total Bonds Refunded	\$250,375,000

In addition, the Department refunded \$250 million of Bond Anticipation Bonds that had been privately placed with Goldman, Sachs & Co. in March 2007 as a bridge financing to the Series AE Bond issue and approximately \$134 million of tax-exempt Commercial Paper Notes.

The refunding allowed the Department to reduce its risk of high volatility in the annual debt service payments on the Department's Series AB auction-rate bonds that have been adversely impacted by rating downgrades of XL Capital, the issue's bond insurer. The savings, assuming that the Series AB Bonds had continued to trade poorly (at the current Bond Buyer Revenue Bond Index of 5.06%) are shown along with the savings from the refunding of the fixed rate Series S and Series U bonds in the following schedule:

ANNUAL GROSS SAVINGS					
	(1)	(2)	(1 + 2)	(3)	(1 + 2 + 3)
	Series S	Series U	Series S & U Savings	Series AB ¹	Total Savings
12/1/2008	443,221.40	25,608.68	468,830.08	(256,155.11)	212,674.97
12/1/2009	441,252.50	23,900.00	465,152.50	510,895.00	976,047.50
12/1/2010	441,415.00	24,900.00	466,315.00	510,895.00	977,210.00
12/1/2011	443,127.50		443,127.50	510,895.00	954,022.50
12/1/2012	439,877.50		439,877.50	510,895.00	950,772.50
12/1/2013	442,527.50		442,527.50	510,895.00	953,422.50
12/1/2014	439,927.50		439,927.50	510,895.00	950,822.50
12/1/2015	440,083.75		440,083.75	510,895.00	950,978.75
12/1/2016	440,378.75		440,378.75	510,895.00	951,273.75
12/1/2017	438,660.00		438,660.00	510,895.00	949,555.00
12/1/2018	438,760.00		438,760.00	510,895.00	949,655.00
12/1/2019	443,250.00		443,250.00	510,895.00	954,145.00
12/1/2020	440,000.00		440,000.00	950,895.00	1,390,895.00
12/1/2021	441,000.00		441,000.00	954,350.00	1,395,350.00
12/1/2022	441,000.00		441,000.00	951,110.00	1,392,110.00
12/1/2023			-	951,350.00	951,350.00
12/1/2024			-	949,805.00	949,805.00
12/1/2025			-	953,475.00	953,475.00
12/1/2026			-	949,830.00	949,830.00
12/1/2027			-	949,805.00	949,805.00
12/1/2028			-	952,315.00	952,315.00
12/1/2029			-	950,835.00	950,835.00
	6,614,481.40	74,408.68	6,688,890.08	14,877,459.89	21,566,349.97

Footnote 1: Series AB Savings calculated assuming future ARS rate of 5.06% (RBI Index)

In summary, this was a critical and successful refinancing effort for the Department and an important step in the continuing effort to monitor and optimize the debt portfolio.

If you have any questions, please contact Perla Netto-Brown, Chief of DWR's Division of Fiscal Services, at (916) 653-9836.