

## CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

### POST BOND ISSUANCE STAFF REPORT

**ISSUE:** Pacific Gas and Electric Company (PG&E) requests approval for the execution and delivery of post-issuance documents, including those associated with the conversion of interest rate mode and mandatory tender for purchase of the outstanding California Infrastructure and Economic Development Bank Refunding Revenue Bonds (Pacific Gas and Electric Company) Series 2010E (2010E Bonds) in order to, among other things, effect the tender of the 2010E Bonds by current bondholders and their subsequent purchase at par by PG&E.

### **BACKGROUND INFORMATION**

#### **Prior Bond Issuances.**

In 2005 I-Bank issued \$453,550,000 in auction rate securities secured by bond insurance, identified as Series 2005A-G (collectively, 2005 Bonds). The 2005 Bonds were issued to repay interim financing obtained by PG&E as part of its plan of reorganization in bankruptcy. The interim financing was used to repay bonds issued by the California Pollution Control Financing Authority throughout the 1980's and 1990's, initially issued to fund certain air and water pollution control, sewage and solid waste disposal facilities at the Geysers Geothermal Power Plant and the Diablo Canyon Nuclear Power Plant.

In 2008, Series 2005A-D and Series 2005F-G were refunded to eliminate risk associated with 1) the collapse of the auction rate securities market and 2) the downgrade of Ambac Assurance Corporation, the insurer of the 2005 Bonds (2008A-D Bonds and 2008F-G Bonds, respectively and together with the 2005E Bonds, the PG&E Bonds).

In 2009, the 2008A-D Bonds were refunded again under provisions of the American Recovery and Reinvestment Act of 2009 which authorized the issuance of bonds for which the interest is not subject to Alternative Minimum Tax (2009A-D Bonds). In 2010, the 2008 F-G Bonds were purchased in flexible rate mode by PG&E and held in its treasury.

Currently the 2008F-G Bonds are outstanding in amount of \$95,000,000 and the 2009A-D Bonds remain outstanding in the amount of \$308,550,000.

In 2008, the California Infrastructure and Economic Development Bank Refunding Revenue Bonds (Pacific Gas and Electric Company) Series 2005E (2005E Bonds) were purchased in auction rate mode by PG&E and held in its treasury.

On April 8, 2010, the I-Bank exchanged the 2005E Bonds, the proceeds of which were used as described above, for new 2010E Bonds. The exchange of the 2005E Bonds for the 2010E Bonds allowed the 2010E Bonds to be treated as a continuation of 2005E Bonds for tax purposes. The exchange also allowed PG&E to convert the 2005E Bonds in auction rate mode to 2010E Bonds remarketed to investors in term rate mode for a term of 2 years. The term rate mode will end and, as a result, the 2010E Bonds become subject to mandatory tender on April 2, 2012.

**Proposed Post Bond Issuance Request.**

As previously noted, the 2010E Bonds are subject to mandatory tender for purchase on April 2, 2012, and instead of being remarketed to investors, will be purchased directly by PG&E and held in its treasury. On the same date, the 2010E Bonds will automatically (and without any change in existing bond documents) convert from term rate mode to flexible interest rate mode. It is in connection with this interest rate mode conversion, tender and purchase that PG&E requests I-Bank to execute and deliver certain documents, including a replacement bond (New 2010E Bonds) registered in name of PG&E and which will also reflect the new interest rate mode.

PG&E expects that the New 2010E Bonds transaction will enable it to effectively manage its cash resources associated with its outstanding bond indebtedness issued by the I-Bank.

**NEED FOR BOARD APPROVAL:** This matter is being brought before the Board in order to affirm the Executive Director's authority to implement the transaction for the New 2010E Bonds and in order to facilitate future post-issuance transactions (Post-Issuance Transactions) associated with any of the outstanding PG&E Bonds, such as interest rate conversions and other post-issuance actions contemplated in the bond documents associated with each series of PG&E Bonds. The proposed resolution provides delegated authority to I-Bank's Executive Director, and other authorized officers, to take actions and execute documents needed to facilitate such Post-Issuance Transactions. Any Post-Issuance Transactions completed under the delegated authority will subsequently be reported to the Board as a non-action item.

**RECOMMENDATION:** Staff recommends approval of Resolution 12-03 authorizing the execution and delivery of certain documents and actions to facilitate post-issuance transactions relating to outstanding bonds issued for the benefit of Pacific Gas and Electric Company.