

Tampa Bay Water
July 18, 2011 Board Meeting Minutes

The Board of Directors of Tampa Bay Water met in their offices at 2575 Enterprise Road, Clearwater, Florida 33763.

BOARD MEMBERS PRESENT:

Present: Chairman – Commissioner Ann Hildebrand, Pasco County
Vice Chairman – Commissioner Susan Latvala, Pinellas County
Commissioner Neil Brickfield, Pinellas County
Mayor Robert Consalvo, City of New Port Richey

Present via Phone: Commissioner Ted Schrader, Pasco County
Commissioner Sandra Murman, Hillsborough County

Absent: Councilman Charlie Miranda, City of Tampa
Council Member Karl Nurse, City of St. Petersburg
Commissioner Mark Sharpe, Hillsborough County

Staff: Gerald J. Seeber, General Manager
Rick Lotspeich, General Counsel

Presenters: Koni M. Cassini, Director of Finance & Administration
David Moore, Directing Manager, Public Financial Management (PFM)
Tom Giblin, Bond Counsel, Nabors Giblin and Nickerson

A list of others present who signed the attendance roster was filed in the permanent files of Tampa Bay Water.

Chairman Hildebrand called the meeting to order at 9:00 a.m. and confirmed the quorum with Commissioner Schrader and Commissioner Murman attending via telephone. She also referred to a written request for an excused absence from Commissioner Sharpe.

PUBLIC COMMENT

Public comment was duly recorded and is filed in the permanent files of Tampa Bay Water.

A1. Resolution No. 2011-014 modifying conditions for termination of the 2001A Swaption Agreements and 2001B Swaption Agreements

Chairman Hildebrand introduced the item stating Koni Cassini would give a brief presentation, followed by Dave Moore from Public Financial Management, and Tom Giblin, Bond Counsel.

Ms. Cassini thanked the Board for allowing staff to provide a short presentation in order to adjust one parameter to the documents approved by the Board in April with the goal of getting the agency out of the Swaptions market. Because of the volatility in the market, with the adjustment of this one parameter we will be able to maintain our goals, i.e. to get out of any type of variable rate derivative product and not have an impact on the uniform rate which means no impact to your customers.

Referring to a graphic, Ms Cassini stated that the agency has two bond series for a total of about \$280 million worth of derivative exposure. Initially these products yielded approximately \$16 million to the agency, and did not have a negative impact. However, with today's financial collapse it now has a negative impact which is the reason we are requesting Board approval today to adjust the parameters to allow us to move away from this and into fixed rate debt. We currently estimate an impact of \$600,000 to \$1.7 million annually.

Ms. Cassini stated staff has been looking at ways to get out of the transactions since before December. In December the Board approved a no-harm-no-foul transaction to terminate the Swaptions. Until April we saw steady interest rate increases which work in our favor because they lower the termination value. Within the parameters the Board already approved, we were hoping to return the dollars we had and save enough money in refunding to pay any extra termination payment. We are still able to do that with an adjustment to the termination payment, which was set at \$45 million, to \$65 million. With sufficient savings on hand, this will have no impact on rate payers.

Ms. Cassini noted, however, if something untold happens in the market place, she would still preserve the ability to seek Board approval at the August meeting to go into the swaps. That would be the last opportunity to do something before the swaps take effect. With Board approval, we will attempt to price the refundings and the termination of the Swaption today and tomorrow and hope to be fully out of the swap transactions by the close of business tomorrow. She stated that staff would provide a full report to the Board in August. Ms. Cassini then turned the presentation over to David Moore of PFM.

Regarding the technical nature of the transaction, Mr. Moore explained that as interest rates go up the cost of the swap termination goes down. And, as interest rates have gone down in the last month or so, the cost of terminating the swap has increased making it necessary to change the number. He noted that the good news is, while the termination fee of the swaps has gone up, the interest rate, the cost you are going to pay on the bonds, has gone down which will allow us to still manage the transaction to be neutral to the agency.

Referring to a graph, Mr. Moore stated because of problems in the financial market the ancillary fees associated with swap transactions have increased dramatically and would cost the agency approximately \$1.7 million per year. Consequently, we are trying to enter into traditional fixed rate financing using medium term notes. He noted the financial team would leave immediately following the meeting to go to the underwriter's office and finish the transaction hopefully by the end of the day tomorrow.

Mr. Moore stated that various steps have been taken over the last year to allow us to take advantage of the market if there were abnormalities or inefficiencies that work in the Board's favor. Since those things have not taken place, we are ready to issue the bonds today. Additionally, since there is a lot of talk in the market about the federal budget and debt, we wanted to be out ahead of that and that is why we want to get to the market today or tomorrow. However, if this is not successful we can be back before the Board in August.

Mr. Moore noted a unique feature of this financing is it incorporates medium term notes. There will be maturities of about \$50 million in the first two years, and then \$75 million in the latter two years. That will be rolled over and eventually the debt service structure will be level, consistent with today. That is one reason why the financing works, along with the low cost of financing today. Since those

bonds will have to be refinanced beginning in 2016, Mr. Moore reviewed a chart of historic interest rates, adding it is assumed interest rates will be no more than 5 percent when the financings are rolled over. He stated it was important to keep in mind that refinancing does not have to wait until 2016. If interest rates are very appealing between now and then a good portion of the bonds can be refinanced early. There is a significant window of opportunity of getting lower rates and actually having additional savings.

Mr. Moore stated that currently 30 percent of the agencies debt has variable rate and Swaption exposure. We are trying to move away from that because of what has happened in the market the last 3-4 years. After today we will have eliminated the swap exposure and all of the agencies debt will be fixed rate. Although this will have to be addressed again between 2016 and 2019, all the debt will be fixed rate so you will know your payments for the 5 or so years. By the end of 2019, through the various restructurings, the agency will be back to 100 percent fixed rate long-term debt. He stated it has been the goal from the beginning to take advantage of market conditions, when appropriate, to get the lowest cost financing and return to all fixed rate debt.

Mr. Giblin stated Resolution 2011-014 is before the Board this morning to modify the resolution adopted by the Board in April 2011 which laid out various parameters for terminating the Swaptions as discussed. The only change being made is to increase the total termination of payment from not exceeding \$45 million to not exceeding \$65 million. That is the only issue we are addressing this morning with the resolution, it does modify the April resolution to accomplish that.

Motion: Commissioner Latvala moved approval of Resolution 2011-014. Mayor Consalvo seconded the motion. Following a roll call vote the Resolution passed unanimously by a vote of 6-0 (Commissioner Sharpe, Councilman Miranda and Council Member Nurse were absent.)

Adjournment:

The meeting adjourned at 9:15 a.m.

Attest: 
Gerald J. Seeber, Secretary

Date: August 15 2011