



ALBANY COUNTY AIRPORT AUTHORITY
 ALBANY INTERNATIONAL AIRPORT
 ADMINISTRATION BUILDING
 SUITE 200
 ALBANY, NEW YORK 12211-1057

TEL: 518.242.2222
ADMIN FAX: 518.242.2641
FINANCE FAX: 518.242.2640
SITE: www.albanyairport.com

ACAA - Finance Committee
APPROVED
 12/3/07

**Minutes of the Finance Committee Meeting
 of the Albany County Airport Authority**

October 25, 2007

Pursuant to notice duly given and posted, the Finance Committee meeting of the Albany County Airport Authority was called to order on Thursday, October 25, 2007 @ 4:06 PM in the 2nd Floor Conference Room in the Administration Building located at the Albany International Airport by Finance Committee Chair Daniel M. Sleasman with the following present:

MEMBERS PRESENT

Daniel M. Sleasman, Chair Finance Committee
 David E. Langdon, Chair, ACAA

MEMBERS ABSENT

None

STAFF

John A. O'Donnell
 J. Dwight Hadley
 Margaret Herrmann
 Ginger Olthoff

ATTENDEES

Sam Hellman, Hawkins, Delafield & Wood
 Guy Nagahamo, DEPFA First Albany Securities
 Kirsten McGrath, DEPFA First Albany Securities
 Susan Schmelzer, DEPFA First Albany Securities

Finance Committee Chair Sleasman noted that there was a quorum.

1. Approval of Minutes: March 5, 2007

ACAA Chair Langdon moved to approve the minutes of the March 5, 2007 meeting. The motion was adopted unanimously.

DAVID E. LANGDON, CHAIR

RICHARD J. SHERWOOD, VICE CHAIR

HENRY E. DENNIS, JR.

DANIEL M. SLEASMAN

JOHN A. GRAZIANO, JR.

ELLIOTT A. SHAW

DORSEY M. WHITEHEAD

JOHN A. O'DONNELL, CHIEF EXECUTIVE OFFICER

2. **Swaption Refunding**

Mr. Hadley distributed a revised *Confidential Working Draft – 10/25/07 Albany County Airport Authority General Airport Revenue Bonds – Series 1997 Background and Options* and a report prepared by DEPFA First Albany Securities entitled *Albany County Airport Authority Presentation to Finance Committee Series 1997 Refunding, October 25, 2007*.

Mr. Hadley reviewed the *Confidential Working Draft – 10/25/07 Albany County Airport Authority General Airport Revenue Bonds – Series 1997 Background and Options*:

BACKGROUND

SERIES 1997 BONDS

In 1997, the Authority issued \$96,305,000 of General Airport Revenue Bonds, maturing through 2023, to finance the Airport Terminal Improvement Project.

The Bonds are subject to early redemption at the option of the Authority. The Bonds maturing on or after December 15, 2008 are subject to redemption prior to maturity beginning December 15, 2007 and thereafter at the option of the Authority, in whole or in part. If the redemption takes place during the first two years beginning December 15, 2007, a redemption premium is also payable as follows:

Period	Bonds Outstanding	Redemption Premium Percentage	Total Amount Premium Amount	Required
12-15-07 to 12-14-08	\$80,800,000	102%	\$1,616,000	\$82,416,000
12-15-08 to 12-14-09	\$78,235,000	101%	\$ 782,350	\$79,017,350
12-15-09 and thereafter	\$75,495,000	100%	\$ 0	\$75,495,000

On and after December 15, 2009, the Authority has the option to redeem all or a portion of the Series 1997 Bonds at any time, at par (i.e. no redemption premium).

SWAPTION

The Authority entered into a Swaption contract in March 2005 that provided the Authority an up-front payment of \$5,330,000 as a synthetic advance refunding of the Series 1997 Bonds. This upfront payment to the Airport represented the adjusted, present-value savings as of March 2005 of refunding bonds to be issued in December 2007, at rates locked-in as of March 2005. The Swaption gives the counterparty, Deutsche Bank AG of New York, the option to terminate the swap on or prior to the forward start date of December 15, 2007 without payment of any settlement amount. (After the effective date of the forward starting interest rate swap, Deutsche Bank will not have the option to terminate the swap while the Authority will have the right, but not the obligation, to terminate the

swap at any time subject to then-current interest rates.) The \$5,330,000 payment was based on a notional amount of \$84,900,000.

The net proceeds of the Swaption, after costs of issuance, equaled \$4,985,037 and were used by the Authority to acquire on-airport capital assets of the former FBO and to acquire a tract of land which was converted to remote long-term parking on-airport. Existing buildings on the acquired tract have been leased to third-parties. While it is not possible to project precisely the economic impact of these acquisitions by the Authority, it is estimated that the additional income from operation of the FBO by the Authority, from additional long-term parking revenues and from the rental income from the existing buildings, will enable the Authority to recover the prior investment of proceeds over the original term of the Swaption.

The term of the swap is equal to the term of the 1997 bond issue, that being through December 15, 2023.

OPTIONS

(1) The bank has the option to terminate the swap at any time prior to the effective date of the swap without payment of any settlement amount. If done, there would be no further obligation, or actions, required by the Authority. At this time, we do not anticipate the bank will terminate the swap.

(2) If the swap remains in place (i.e. the bank does not exercise its termination option and the Authority does not exercise its right to unwind the swap), the Authority would issue variable-rate refunding bonds. The Authority would pay the debt service on the refunding bonds plus a fixed payment to the bank for the term of the swap at 4.56% of the notional amounts and receive a variable rate interest payment based on the notional amounts from the bank equal to 70% of the London Interbank Offered Rate (LIBOR). (The 70% of LIBOR receipt from Deutsche Bank was designed to offset the interest the Authority would pay on the variable rate refunding bonds, leaving the Authority with a synthetic fixed cost of capital.)

(a) Traditionally, variable rate bonds are sold through a negotiated sale. In the case of the Authority, a negotiated sale would be subject to the approval of the both the State and County Comptrollers under the Authority's enabling legislation. Since the 1997 Bond issue, all bonds have been sold on a competitive bid basis.

(b) The finance team has identified a way to structure a competitive sale of variable rate refunding bonds. (This structure is based on a 2006 Shelby County, TN, competitive sale of variable rate bonds. Bond Counsel will need to opine that such a sale will not require the approval of the State and County Comptrollers).

It is important to note that should the Authority leave the swap in place and issue variable rate refunding bonds, the Authority will continue to have the option to unwind the swap in the future at

then-current market rates, at breakeven or receiving a termination payment, and either leaving the refunding bonds as unhedged variable rate exposure or issuing conventional fixed rate bonds to refund the variable debt.

(3) The Authority can negotiate to terminate the swap and pay the bank the current value of the swap. As of September 30, 2007, the bank valued the swap at \$6,233,315. The value changes daily as market interest rates fluctuate. To pay the termination amount, the Authority needs a source of funds. Since the swap proceeds have been spent by the Authority, previously received funds are not available. This leads to several alternatives:

The Authority could proceed to refund the 1997 bonds on a competitive fixed rate interest basis plus issue additional taxable¹ bonds to fund the Swaption termination payment due the bank.

(a) If refunding bonds are issued in an amount that also includes cash-funding a debt service reserve fund (DSRF), based on today's market interest rates, the projected total annual debt service payments would slightly exceed the current payments due for the 1997 bond issue.

As part of a regular bond issue, a DSRF is normally established at an amount equal to the highest debt service payments that will become due in any one year during the life of the bond issue. This amount (\$8 million in case of the 1997 bond issue), is held during the life of the issue and is available to fund the final year payments on the outstanding bond. During the life of the bond issue, interest earnings on the DSRF are applied each year toward that year's debt service payments.

(b) If the refunding bonds are issued for an amount that does not include cash funding a DSRF, the Authority would be required to purchase a surety bond to satisfy the debt service reserve requirement. This would reduce by approximately \$8 million the amount of refunding bonds to be issued. The surety bond premium, estimated at approximately \$150,000, can be funded from proceeds of the bond issue. The premium is a one-time expenditure and provides no funds. In this alternative, the projected annual total debt service payments would be less than the current payments due for the 1997 bond issue. However, neither the surety bond (3-b) nor the cash-funded reserve (3-a) produces additional net present value savings.

(4) The Authority could elect not to refund the 1997 bonds at this time. While this strategy would save the \$782,350 or the \$1,616,000 redemption premium depending upon if or when the refunding bonds are issued in the future, the Authority would still have to find the funds to pay the current \$6.2 million swap termination amount today.

(a) Accordingly, the Authority could issue taxable bonds in an amount sufficient to pay the

¹ Depending upon market conditions, a portion of the termination payment may be able to be funded on a tax-exempt basis.