# BOARD OF THE METROPOLITAN SEWERAGE DISTRICT
# SPECIAL MEETING
# MARCH 25, 2008

## 1. Call to Order and Roll Call:

A special meeting of the Metropolitan Sewerage District Board was held in the Boardroom of MSD's Administration Building at 11:30 AM, Tuesday, March 25, 2008. Chairman Aceto presided with the following members present: Bissette, Bryson, Creighton, Metcalf, and Sobol. Mr. VeHaun attended by telephone as determined allowable by the General Counsel and Chairman. Ms. Bellamy, Mr. Gantt, Mr. Haner, Mr. Kelly and Mr. Russell were absent.

Others present were: Thomas E. Hartye, General Manager, William Clarke, General Counsel, Scott Powell and Sondra Honeycutt, MSD.

## 2. Consideration of Adoption of the Series Resolutions for Sewerage System Revenue Refunding Bonds 2008A and 2008B:

Mr. Bissette moved that the Board authorize the adoption of the Series Resolution authorizing and securing not exceeding $35,000,000 Metropolitan Sewerage District of Buncombe County, North Carolina Sewer System Revenue Refunding Bonds Series 2008A. Ms. Bryson seconded the motion. Mr. Aceto called for discussion. With no discussion, roll call vote was as follows: 7 Ayes; 0 Nays.

Mr. Metcalf moved that the Board authorize the adoption of the Series Resolution authorizing and securing not exceeding $24,000,000 Metropolitan Sewerage District of Buncombe County, North Carolina Sewer System Revenue Refunding Bonds Series 2008B. Mr. Sobol seconded the motion. Mr. Aceto called for discussion. With no discussion, roll call vote was as follows: 7Ayes; 0 Nays.

Mr. Sobol asked what happens next and whether the resolutions specify variable versus fixed rates. Mr. Clarke stated that the Series 2008B are variable rate bonds. Mr. Sobol asked what the maturity is. Mr. Clarke said the bonds are remarketed every week, but are 20-year maturity bonds. Mr. Sobol said the difference between variable and fixed rate bonds is about 5.5%, which is high. Mr. Clarke said the reason they are high is because people who are buying the bonds do not want to be locked into paying a low rate for a long period of time. Mr. Sobol stated that although the rates are down, how much lead time would MSD have to buy its way out of the variable rate bonds if the market starts to move up. Mr. Powell said if MSD went to a fixed rate scenario on both the 2008A and 2008B Series, the best MSD could get would be 5% as far as the maturity date. He explained that staying with a variable rate on the 2008A bonds would allow MSD to save $7.8 million dollars and the Series 2008B bonds would allow a savings of $7.5 million dollars.

Mr. Hartye said there are several factors to consider; one of which is the new money issue in a few years, which will be fixed rate bonds. He further stated that the Board can discuss changing the variable rate to a fixed rate, but currently the variable rate bonds are saving the District money; otherwise, MSD would paying another $35 - $50,000 a week. He further stated that there are other issues with the swap agreement; when MSD can get out, tax issues until 2011 and the buyout cost. He further stated that the Board can continue to look at these factors in terms of the bigger picture; should the new money be fixed and at that time, should the variable bonds be changed to a fixed rate. He explained that when the variable rate is low then payout interest on the bonds is less; while not yielding as much in incoming interest. When the interest rate is higher, MSD is yielding more interest coming in, but is also paying out more interest on the variable rate bonds, which was the philosophy behind hedging the variable rate versus cash and investments. Mr. Aceto suggested that staff do a periodic comparison of where MSD is with the variable rate issue and where it would be interest and cost wise if it were a fixed rate. Also, meet with the Finance Committee to revisit what the plan is going forward with the fixed and variable rate decision and decide what the trigger is to make that decision. Mr. Powell stated that he can provide this information each month as part of the Cash/Investment Report. Mr. Sobol suggested that the cost associated with going from a variable rate to a fixed rate be included. Mr. Powell stated that as far as the variable rate, the answer is the issuance cost of the debt. As far as the swap requirement, this is dictated by what the interest rates are in relation to the Swap Agreement as it stands now. He further stated that the "termination" fee alone is $2.4 million dollars. In addition there is an issuance cost of approximately $250,000 and tax consequences, which would go away in 2011. Mr. Bissette asked when the Swap Agreement goes away. Mr. Powell said this agreement is for the life of the bonds.

**3. Adjournment:**

With no further discussion, Mr. Aceto called for adjournment at 11:50 PM.

Jackie W. Bryson, Secretary/Treasurer