



GREATER ORLANDO AVIATION AUTHORITY

Orlando International Airport
One Jeff Fuqua Boulevard
Orlando, Florida 32827-4392

MEMORANDUM

TO: Members of the Aviation Authority

FROM: Frank Kruppenbacher, Chairman, Finance Committee

DATE: June 24, 2015

ITEM DESCRIPTION

Recommendation of the Finance Committee to Authorize Staff to Terminate the Airport Authority's Interest Rate Swap Related to the City of Gulf Breeze Capital Funding Revenue Bonds, Series 1997B (Second Subordinated Lien Loan Program)

BACKGROUND

Since 1985, the City of Gulf Breeze, FL (Gulf Breeze) has sponsored intergovernmental loan pool programs to provide low cost financing to local governments throughout Florida. In 1997, the City of Gulf Breeze issued \$90.055 million of fixed rate bonds (the "1997 Gulf Breeze Bonds") with a coupon of 4.50% and a final maturity of 2027 with sinking fund installments beginning 2023. Gulf Breeze converted the fixed rate debt to a variable rate through a swap with J.P. Morgan (the "J.P. Morgan Swap"). J.P. Morgan pays Gulf Breeze 4.50% in exchange for a payment of Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) less 0.26%. The Greater Orlando Aviation Authority (the "Aviation Authority") entered into a variable rate loan with Gulf Breeze (the "1997B Bonds") for the purpose of providing funds to finance a portion of the costs of acquiring and constructing various improvements to the Airport's terminal facility, airfield, roadways and parking facilities and simultaneously converted the variable rate loan to a fixed rate obligation by entering into a fixed rate swap with Goldman Sachs Mitsui Marine (the "Goldman Sachs Swap"). The Series 1997B Bonds are subordinated to all of the Aviation Authority's outstanding debt. Under the Goldman Sachs Swap, the Aviation Authority is obligated to pay Goldman Sachs 4.45% in exchange for receiving SIFMA. With both swaps taken into account, the Aviation Authority effectively has a loan rate equivalent to approximately 4.54% (net of all loan administrative and marketing fees) on a deeply subordinated basis while eliminating any of the risks associated with variable rate bond programs. The loan is not based on variable rate bonds and therefore is not subject to a put and doesn't need liquidity support of any kind. This is currently the only swap the Aviation Authority has outstanding.

On December 18, 1997, the Aviation Authority Board adopted a Resolution Authorizing Participation in the Gulf Breeze, Florida Capital Funding Program (the "Authorizing Resolution"). The Authorizing Resolution contains a provision which requires the consent of the bond insurer, MBIA, in addition to the bondholders, for any amendments to the Authority's Bond Resolution. Additionally the Authorizing Resolution requires the consent of MBIA and the City of Gulf Breeze to any amendments that would: 1) reduce deposits to the sinking fund below amounts sufficient to pay amounts due; 2) impair the security for the bonds of the priority of the Lien for the Pledged Funds or; 3) adversely affect the Authority's receipt of sufficient Pledge Revenues to make required principal and interest payments.

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Furthermore the consent of the City of Gulf Breeze is required prior to the issuance of any subordinated bonds not otherwise listed in the Authorizing Resolution. In combination, these provisions make it difficult for the Aviation Authority to issue any subordinated debt.

The loan was structured to begin principal repayments totaling \$90,055,000 in five annual installments on October 1, 2023 through October 1, 2027 in amounts ranging from \$12,635,000 to \$20,650,000 payments. The Aviation Authority can restructure these payments by redeeming the 1997B Bonds and issuing fixed rate debt that has level debt service. This will allow the Aviation Authority to reduce the annual impact on Airline Rates and Charges and provide for more flexibility in structuring the debt associated with the South Terminal development program.

The overall transaction is complex and its effectiveness hinges on the fact that the two swaps are offsetting. Consequently the termination values of the swaps (i.e. the amount paid or received by the swap provider on termination of the swap) tend to move in opposite directions as interest rates fluctuate. In the vernacular of the finance industry, when one swap is "in the money" (i.e. money is payable to the municipal counterparty), the other is "out of the money" (i.e. money is owed by the municipal counterparty). Because the swaps' payments are based on different indices, the termination values are not precisely offsetting. Consequently, when the termination values approach the point at which they substantially offset each other, there is an opportunity to restructure the transaction at minimal cost.

Since 2009, the valuations of the Gulf Breeze and Goldman Sachs Swap have not been conducive to restructure the entire transaction. At one point, the termination value of the Gulf Breeze Swap was more than \$5 million less than the termination value of the Goldman Sachs Swap, which would have resulted in a net payment by the Aviation Authority. As of June 15, 2015, the termination value of the Goldman Sachs Swap is "out of the money" by \$25.770 million, and the termination value of the J.P. Morgan Swap is "in the money" by \$24.640 million resulting a negative net amount of \$1.130 million to the Aviation Authority.

Due to current market conditions, there is an opportunity to terminate the swaps and restructure the Gulf Breeze loan and potentially lock-in significant economic benefits. If authorized, Staff will terminate the Aviation Authority/Goldman Sachs Swap and the City of Gulf Breeze will terminate the Gulf Breeze/J.P. Morgan Swap simultaneously. Gulf Breeze will transfer the termination payment to the Series 1997B redemption account for the benefit of, and use by, the Aviation Authority. The Aviation Authority could draw on an existing line of credit or utilize other funding sources to pay for the termination of the Goldman Sachs Swap. Shortly thereafter, the Aviation Authority will issue long-term fixed rate bonds to pay off the Gulf Breeze Loan and the City of Gulf Breeze will in turn, redeem the underlying Series 1997B Bonds.

On March 18, 2015, Finance Committee accepted Staff's recommendation to begin negotiations with the City of Gulf Breeze and direct Gulf Breeze to terminate the City of Gulf Breeze/J.P. Morgan Swap. Gulf Breeze has approved a resolution authorizing Gulf Breeze's swap termination and Series 1997 bond redemption.

ISSUES

The provisions of the Authorizing Resolution for the 1997B Bonds and the Goldman Sachs Swap documents impede the Aviation Authority's ability to implement the proposed subordinated debt revisions to the Airport Facilities Revenue Bond Resolution (the "Senior Lien Bond Resolution"). Those impediments can be eliminated by paying off the Gulf Breeze loan, redeeming the 1997B Bonds, terminating the Goldman Sachs Swap and issuing new fixed rate bonds. Under current market conditions, the Aviation Authority can achieve significant savings by executing this restructuring.

ALTERNATIVES

The Aviation Authority could decide to delay the proposed swap termination in order to monitor future market conditions. This alternative is not recommended.

FISCAL IMPACT

After terminating the Goldman Sachs Swap, redeeming the 1997B Bonds and issuing fixed rate bonds the Aviation Authority expects to realize average annual savings in debt service payments of more than \$1.0 million to the final maturity October 1, 2027.

RECOMMENDED ACTION

It is respectfully requested that the Aviation Authority Board resolve to accept the recommendation of the Finance Committee and (1) authorize instruction to Gulf Breeze to terminate the City of Gulf Breeze/J.P. Morgan Swap; (2) authorize the termination by the Aviation Authority of the Aviation Authority/Goldman Sachs Swap; (3) authorize funding of the Aviation Authority's swap termination payment with line of credit proceeds or other funding sources; (4) request Orlando City Council approval with the proposed swap terminations; and (5) authorize the Chairman or Vice Chairman and the Secretary or Assistant Secretary of the Aviation Authority to approve and execute any and all documents necessary to effect the foregoing, subject to legal counsel review.