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Memorandum

TO: BATA Oversight Committee DATE: July 1, 2009

FR: Deputy Executive Director, Operations

RE: Supplemental Indenture and Issuance of up to $1.3 Billion in New BATA Bonds - Resolution No. 89

Staff recommends that the Committee forward Resolution No. 89 to the Authority for approval.

Resolution No. 89 authorizes the issuance of up to $1.3 billion in new money bridge toll project financing bonds, as well as the possible use of a subordinate lien credit structure. Resolution No. 89 makes two slight adjustments to the new money bonding authority approved by the Authority in April in Resolution No. 85.

The first adjustment from Resolution No. 85 is that the new money bonding authority would be increased from $1.2 billion to $1.3 billion and the interest rate cap for tax-exempt bonds would be increased from 6.25 percent to 6.50 percent. The increase maximizes project capacity within the current market. The issuance parameters will be as follows:

Issue Size	$1.3 billion
Interest Rate:	
Taxable	8.50%
Tax-Exempt	6.25%
Cost of Issuance	2% of Principal

The financing must be completed within these parameters by December 31, 2009 or this authorization will expire.

The second adjustment from Resolution No. 85 is that Resolution No. 89 authorizes the issuance of the new money bonds under a subordinate indenture. Since 2001, all Authority bonds have been issued on a parity basis. This means every bondholder has the same security and priority when it comes to debt payments. Under a senior/subordinate structure, debt payments will first flow to all the "senior" bondholders (the current Authority bondholders) followed by debt payments to the "subordinate" bondholders (the holders of bonds issued under the new subordinate indenture). Because subordinate lien bonds do not have the high debt coverage required of the "AA" senior lien bonds, the Authority can enhance the credit strength of the senior lien bondholders without harming our ability to issue project funding.

In the end, the security for both bonds, senior and subordinate, is substantially the same. The Authority will have the same responsibility to maintain tolls as necessary to meet all debt service costs, senior or subordinate.

Attached to Resolution No. 89 are the proposed subordinate indenture and an updated information statement to be used in connection with the sale and remarketing of BATA bonds. Due to an error, the information statement that was referred to in Resolution No. 85 was not presented at the April 22 meeting, and resubmission with Resolution No. 89 will correct that omission.

Resolution No. 85 authorized terminating the Authority's $1.08 billion in interest rate swaps with Ambac Financial Services, LLC. Resolution No. 89 does not change that authorization. The Committee will receive an update concerning the Ambac situation at its meeting on July 8th.

Resolution No. 89 would facilitate the next step—restructuring the Authority's variable rate debt portfolio and related bank liquidity agreements. The Authority currently has outstanding $4.3 billion in bonds, 51% of which are variable interest rate bonds supported by bank liquidity agreements and 49% of which are fixed interest rate bonds. Resolution 89 would authorize refunding (or converting) variable rate bonds into fixed rate bonds and terminating the bank liquidity agreements supporting variable rate bonds. There will be a presentation to the Committee at its meeting on July 8th as to the amount of variable rate bonds expected to be refunded in August.

Refunding variable rate bonds will reduce the Authority's need for what has become rather expensive bank liquidity support facilities for variable rate bonds. The presentation to the Committee at its meeting on July 8th will cover the cost to the Authority of the termination of the Ambac interest rate swaps and the August refunding of variable rate bonds. The advantages to the Authority of this approach include reducing its dependence on liquidity banks and eliminating its exposure to Ambac as a swap counterparty, which will in turn strengthen the Authority's financial structure and bolster its credit ratings.

This is a market opportunity brought to the Authority by the credit rating downgrades suffered by Ambac and by favorable swap and debt market conditions. Staff recommends the Committee approve Resolution No. 89 and forward it to the Authority for consideration.

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Andrew B. Fremier

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