

MINUTES
BEXAR METROPOLITAN WATER DISTRICT
SPECIAL BOARD MEETING
2047 W. MALONE, SAN ANTONIO, TEXAS 78225
P.O. BOX 245994, SAN ANTONIO, TEXAS 78224
May 15, 2006

In accordance with Chapter 551 of the Texas Government Code, Vernon's Annotated Civil Statutes, Section 31, the Board of Directors for the BEXAR METROPOLITAN WATER DISTRICT held a **Special Board of Directors Meeting at 5:00 p.m. on the 15th day of May, 2006**, in the Board Room of Bexar Metropolitan Water District, 2047 W. Malone, San Antonio, Texas.

BOARD MEMBERS PRESENT: Victor Villarreal; Lesley Wenger; Jim Clement; James Fenimore; Jose Gallegos; Robert Morin; David Sosa.

STAFF MEMBERS PRESENT: Gil Olivares; Adolfo Ruiz; Jesse Morin; Helen Casias; Annette Pawelek; Travis Runty.

GUESTS PRESENT: Bob Anderson

CONSULTANT PRESENT: Mike Villarreal

PRESS PRESENT: Jerry Needham (*Express-News*)

MINUTES

The open session of this meeting was tape recorded. These minutes are a summary record of the Board's actions at the meeting. For a detailed record of discussions and statements made by persons speaking at the meeting, please consult the audio files at the District's office.

Item 1

Mr. Villarreal called the meeting to order at 5:00 p.m.

ACTION ITEMS

Item 2. Authorization for the Board's President and Treasurer, General Manager and Director of Finance to travel to New York City (per the Agenda).

Mr. Olivares announced that he would make a presentation, with hard copies for the Board and that Mike Villarreal, the District's financial advisor, and Jesse Morin, Director of Finance were present to answer questions.

Mr. Olivares said the question had come up: Why does BexarMet need to travel to New York to visit with rating agencies and insurance companies? As background, he noted, we have quite a bit of debt already outstanding and are attempting to refund that debt, which would result in savings. Additionally for two years we have had about \$20 million in Commercial Paper where we never pay principal—only interest. This last year, except for a capital lease for vehicles, we have not borrowed any money. Therefore, with interest rates where they are, we believe it is wise to take that \$20 million in Commercial Paper “long”, which means we would issue debt, pay interest and principal, and then pay that down relatively quickly.

By refunding approximately \$19 million of portions of 1998 and 2000 Bonds, we could generate \$579,000 in net present value savings. We are also looking at other bonds and proposals that could potentially increase the savings to \$1.6 million. At present our Commercial Paper has a variable rate, which means that as interest rates rise, we pay more—we intend to convert that to a fixed rate debt. Mr. Olivares pointed out that we could have done this last year, when interest rates were lower, but because of the transition that took place both on the Board and in management, it was felt that we could not present the picture of stability that we can now present.

Mr. Olivares disclosed that the reason it was necessary to meet face-to-face with the three rating agencies (Fitch, Moody's and Standard & Poor's) and the bond insurance representatives is that prior to the last swap, the former management team met with Fitch and made a commitment to take the proceeds from the swap and put them into the reserves. But instead of doing that, the monies were used for operational needs. So BexarMet did not keep its word and that's the reason, about a year ago, that Fitch gave us a downgrade, which affected our credit quality, and that means it costs more for debt. Current management needs to enumerate the District's accomplishments, communicate future goals and objectives for financial stability and address public perception. The insurance companies insure our debt in the same way your house is insured—if you don't look that great, you get charged more.

Mr. Olivares explained that if we were to try to handle this matter in Texas, we would be dealing with junior analysts, because the senior analysts will not come to San Antonio. He emphasized this is purely a business trip with a very tight schedule with 1 ½ days for round trip travel and 1 ½ days to meet with the necessary entities in New York. He presented a breakdown of the cost for travel, hotel and food, totaling \$5,471.68. He said he, Jesse Morin and Mike Villarreal were prepared to answer any questions the Board might have.

Ms. Wenger said she had quite a few questions, posed by constituents, whom she had been on the phone with, over the weekend, since she first learned of the trip. She asked when the trip was scheduled to take place, and Mr. Olivares said “Tomorrow”. Ms. Wenger asked who picked the date and what the significance was of the date. Mr. Olivares responded that the date was selected by coordinating schedules with the four individuals who were to make the trip.

Mike Villarreal said it was important to note that the date was also significant because the 1995 contract with Citigroup gives them the option of requiring BexarMet to pay on variable rate debt, and there are three dates for them to exercise that option, two of which have passed. We had notification in March 2005 from them, and were expecting that we might be required to pay back some upfront funds. But the market has been moving away from them

and toward us ever since, so they did not exercise the option. They have one more date left. He explained that we have been focused on the swaption as well as waiting to see if and when the Fed was going to stop increasing rates, and are now completely certain that short term rates will remain where they are, at least at 5%.

Ms. Wenger pointed out that rates were just raised by the Fed last week, and that raise was publicized well in advance.

Mike Villarreal said that was correct, but a year ago no one expected the Fed to go from 1.25 to 5% in 16 consecutive increases. He explained that in the refunding, which as Mr. Olivares had noted, was the key decision, bondholders will be notified that they will not be paid until BexarMet pays all its expenses. This, he said, differs from a school district whose debt is supported by property taxes and then guaranteed by the State of Texas. But our debt is riskier, because it's based on our ability to collect on water bills, so credit worthiness is a key factor, and having to buy insurance at a good rate also matters. Both are based on how well we run our operation.

Ms. Wenger said she understood that the BexarMet story needed to be told, but wanted to know who decided that four BexarMet representatives needed to go to New York. Mr. Olivares said these were the individuals who were identified by the Finance Committee as the people to tell the BexarMet story, because it was necessary to address what may have been perceived as negative headlines. Ms. Wenger said she would like to hear the presentation that was going to be made, but she did want to note that headlines alone did not denote negative articles, that newspapers are noted for composing headlines that will grab the public's attention, and surely analysts in New York City are aware of that. She asked if we know for a fact that the headlines presented are ones that they're interested in. Jesse Morin responded that when Fitch was here six months ago, some of these issues were raised.

Mike Villarreal distributed a paper showing the meeting schedule, noting that May 17 was a pretty packed day, and then two more meetings were scheduled for the 18th, before flying back. He explained that the meetings could be conducted one after another because all of the parties were coming to the New York office of his company, Samco Capital Markets. Ms. Wenger asked if Mike Villarreal was also going to New York, and if his expenses were included in the \$5,000 cost. He explained that there would be no bill for his expenses because they're included in the fee schedule that is based on the amount of the transaction, and the fee for the transaction would be the same, whether or not he went to New York.

Mr. Villarreal stated that he had originally asked that this item be presented as a report at the last meeting—although as it turned out we never got to it-- because, like Mike Villarreal's fee, he had assumed the cost was built into the Budget and did not require Board action. But we have learned a lesson, it will be a Board action in the future and it is something the Board has a right to discuss and vote on. He emphasized that he does not condone hiding any information from the Board, from the media or from the public. There was no arrogance or distrust of anyone involved, but when the Board was finally informed last Thursday and questions were raised, he decided either the trip should be postponed or we needed a Special Call Meeting. Because arrangements had already been made with the New York analysts and insurance brokers, he decided the best course of action was to have a Special Call Meeting.

Ms. Wenger said she understood Mr. Villarreal's position—that if we have to go, we have to go—but she felt this should have been brought up in a timely manner, so that the conversation we were now having could have occurred and a determination could have been made before monies were expended. She explained that part of her concern, which came from speaking with constituents who were financial consultants, was why this issue could not be handled via a conference or video-conference call, which would not limit the parties to a set time, but would allow time for all the questions to be asked and answered.

Mike Villarreal responded that there were different conventions with different types of debt. With revenue bonds, which are riskier and more complicated, a face-to-face meeting was important and conventional, particularly so when you have a new team to tell the story. He emphasized that the stakes were really high because this involved an upgrade or affirmation in the credit rating as well as a competitive bid on the insurance.

Mr. Gallegos said he had tremendous concern with this matter and noted that before Mr. Olivares' presentation, a motion had already been made and seconded. He asked Mike Villarreal when we first hired his company, and was told it was August 2005. He then inquired if Board members were going to receive a copy of Mike Villarreal's presentation packet and upon affirmation, asked if staff could please pass them out. Referencing an earlier statement that Fitch representatives had previously come to San Antonio to meet with staff, he asked when that meeting took place and was told it was in November 2005. Mr. Gallegos asked who the Fitch representatives were and who from BexarMet met with them. Mike Villarreal responded that Jose Hernandez was Fitch's rating analyst, before he left the company, and Mr. Olivares said he, Jesse Morin and the Director of Operations had met with Mr. Hernandez. Mr. Gallegos asked if the Board Treasurer had been involved in the discussion.

Mr. Olivares said the Treasurer had not been involved because he and the Finance Director meet with bankers all the time. The bankers have very specific questions, which generally Board members would not have answers to. If it's determined that some other staff person needs to be present, or some specific Board member, then those individuals would be included.

Mr. Gallegos asked if the President or the Treasurer had been briefed on any of these meetings and Mr. Olivares said that in the case of the Fitch visit, as with other meetings of import, the whole Board was briefed. Mr. Gallegos said he did not recall that briefing and it was a matter of concern to him because the last time the District had a bond swap, under the previous administration, it almost cost the ratepayers \$500,000 without any contract having been signed that authorized such a commission payment. He noted that he and several other Board members made that discovery and were able to stop the unauthorized payment. Therefore he wanted to ask about Mike Villarreal's fee and commission.

Mike Villarreal responded that his company's fee was built into the contract with BexarMet, which the Board approved, and that the fee is based on the size of the transaction, so that it would be the same whether or not he and other members of the firm made the trip to New York. Their intent is to execute the best transaction possible for the District's ratepayers.

Mr. Gallegos said he anticipated the fee would be based on the savings to the District, and asked what the projected savings would be and what guarantee there was that there would be a savings. Mike Villarreal explained that it will be up to the Board to pull the trigger on the transaction, at which point he would be back with a specific figure which the Board would vote on before the contract is signed. The Board should only move if a specific savings threshold is met. However, he pointed out that there are two parts to the refunding—the second being to take our commercial paper long. Right now that debt is in a short term variable rate, but now we want to go into long term and lock in the low interest rate before it moves up. That part of the transaction needs to take place, regardless.

Mr. Olivares stated that based on their calculations, in a worst case scenario the District's savings would be \$576,000. Mike Villarreal concurred and said he would be back for the May 31st Board meeting with a report on the exact savings to be realized. Mr. Gallegos said the worthiness of the trip, to meet with the necessary individuals, was not in question. But from everything that was reported, this was a project that had been in the works for some time, without it being brought to the Board, and he disagreed with the method of getting the Board to ratify decisions that had already been made. He said that despite the fact that the trip had not yet taken place, this still seemed to be what was happening here.

Mr. Clement noted, first and foremost, the ratio of the cost of the trip against the potential gain, is a very small outlay. Second we do not have the ability to teleconference, and if we went to the expense of bringing in the necessary equipment, which is not cheap, we would find it was more cost effective to send everyone to New York. Third he emphasized that Samco's presentation tonight was the same one made to the Finance Committee. Mr. Clement said that while everyone understood what was happening, it was true that even as a member of the Finance Committee he did not know about the trip, and he had some heartburn about that, but he has considered the entire situation and believes the trip is necessary.

Mr. Morin inquired if there was a deadline for the refinancing actions by the Board. Mike Villarreal explained that the market was rising, so the longer we put this off, the savings we are trying to realize will likely evaporate. Mr. Morin said he recalled when Mike Villarreal appeared before the Board last summer, expressing awareness of what was happening with the market, but that at the time he was just watching to see where things would go. Mike Villarreal acknowledged that at that time his focus was on the March 2005 exercise by Citigroup. One we moved past that, we began to focus on existing debt.

Mr. Morin asked if the travel expense was within the budget and Mr. Olivares concurred. Mr. Morin said that coming from a sales background, he completely agrees that we need face time with these people, to get in front of them with our story as to how well we are doing now. So his only concern had been about the immediacy of the trip.

Mr. Sosa said he had no problem with anything presented. His twelve years of experience on a school board had taught him that it is common practice to send people to New York to talk to the movers and shakers who will be making the decisions that will save our constituents money. He felt that the Board needs to trust the staff and not question everything they do.

Mr. Fenimore said when he was first elected Treasurer, and thereby Chairman of the Finance Committee, he had no idea what a swaption, or some of the other buzz words meant. But he has had quite an education since that time, and has paid particular attention to all the finance figures in our Board packet every month. He recalled that when Chase first started to talk about refinancing our debt, the deadline was March 1, so he kept asking what was going to happen, and waiting for Chase to make their move. But the market changed and it was not advantageous to pull the trigger. Then he began to hear about the idea of going face to face. Mr. Fenimore said he does not like electronic communication; he is a face to face kind of guy and believes it is a more honest way to do business. He noted that a cloud is hanging over BexarMet from the past misdeeds of other people, and while there have not been any convictions to date, we have been left with a situation that encourages the newspapers and TV media to keep barking. While he knew the trip was being planned, and thought that was understood by other members of the Finance Committee, he has learned a lesson from all this. He does not like to take everyone's time blah-blahing about what he thinks about everything, but he realizes that it is his responsibility to be sure the Board is informed as to what is going on in the Finance Committee—even though that information is available in the Board packets. He added that his role in going to New York was not to be a databank of information, but to be part of a show of unity.

Mr. Villarreal said that while he appreciated Mr. Sosa's statement, questioning the staff is one of the responsibilities we have as Board members. He agreed with Mr. Fenimore that this has been a learning experience; he acknowledged this matter could have been handled better, but we need to move on. He asked if there were any final statements.

Ms. Wenger said it was clear that refinancing and lowering the cost of the debt insurance was an excellent idea. She did not know why it had not been presented in a more timely manner since it was clear the staff had nothing to be ashamed of and she now understood that there was nothing intentional, just that it had been overlooked. However there had been a number of opportunities to present this to the Board, the latest being the May 2nd Board meeting, and because of her understanding of the Open Meetings Act, she did not feel she could vote to approve a trip to take place tomorrow.

Mr. Villarreal called for the vote.

Ayes: Villarreal; Clement; Fenimore; Sosa; Morin.

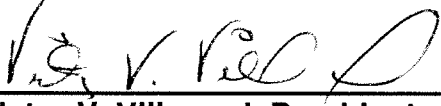
Nays: Wenger; Gallegos.

Motion carried.


Mr. Villarreal asked if there was an objection to adjournment and there was none.

The meeting was adjourned at 6:14 PM.

Minutes approved this 5 day of September, 2006.



**Victor V. Villarreal, President
BexarMet Water District**



**Jim Clement, Secretary
BexarMet Water District**