



CARL T.C. GUTIERREZ
GOVERNOR OF GUAM

SEP 06 2002

The Honorable Joanne M. S. Brown
Legislative Secretary
I Mina'Bente Sais na Liheslaturan Guåhan
Twenty-Sixth Guam Legislature
Suite 200
130 Aspinal Street
Hagåtña, Guam 96910

Dear Legislative Secretary Brown:

Enclosed please find Substitute Bill No. 368 (COR) "AN ACT TO ADD § 1203(k) TO TITLE 12 OF THE GUAM CODE ANNOTATED. RELATIVE TO APPROVING THE ISSUANCE, TERMS AND CONDITIONS OF BONDS BY THE ANTONIO B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM FOR THE PURPOSE OF REFUNDING PRIOR BONDS AND TO AUTHORIZING THE ANTONIO B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM TO ENTER INTO INTEREST RATE SWAP AGREEMENTS," which I have signed into law as **Public Law No. 26-127**.

This legislation gives the airport authority the authority to finance bonds. At the present time, the Antonio B. Won Pat International Airport Authority, Guam is in need of refinancing current bonds that can result in a savings of \$15 Million in debt service savings. Any savings that can be realized from refinancing any outstanding debts of the government should be undertaken.

Very truly yours,

Carl T. C. Gutierrez
I Maga'Lahen Guåhan
Governor of Guam

Attachments: original bill for vetoed legislation or
copy of bill for signed or overridden legislation
and legislation enacted without signature

cc: The Honorable Antonio R. Unpingco
Speaker

OFFICE OF THE LEGISLATIVE SECRETARY	
ACKNOWLEDGMENT RECEIPT	
Received By	
Time	2:28
Date	9/6/02

0915

MINA'BENTE SAIS NA LIHESLATURAN GUÅHAN
2002 (SECOND) Regular Session


CERTIFICATION OF PASSAGE OF AN ACT TO I MAGA'LAHEN GUÅHAN

This is to certify that Substitute Bill No. 368 (COR), "AN ACT TO ADD § 1203(k) TO TITLE 12 OF THE GUAM CODE ANNOTATED, RELATIVE TO APPROVING THE ISSUANCE, TERMS AND CONDITIONS OF BONDS BY THE ANTONIO B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM FOR THE PURPOSE OF REFUNDING PRIOR BONDS AND TO AUTHORIZING THE ANTONIO B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM TO ENTER INTO INTEREST RATE SWAP AGREEMENTS," was on the 4th day of September, 2002, duly and regularly passed.



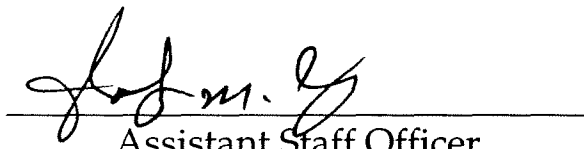
ANTONIO R. UNPINGCO
Speaker

Attested:




JOANNE M.S. BROWN
Senator and Legislative Secretary

This Act was received by *I Maga'lahen Guåhan* this 4th day of Sept, 2002,
at 18:15 o'clock P.M.



Assistant Staff Officer
Maga'lahi's Office

APPROVED:



CARL T. C. GUTIERREZ
I Maga'lahen Guåhan

Date: 9-6-02

Public Law No. 26-127

MINA'BENTE SAIS NA LIHESLATURAN GUÅHAN
2002 (SECOND) Regular Session

Bill No. 368 (COR)

As substituted by the Author
and amended in the Committee
of the Whole.

Introduced by:

A. R. Unpingco
E. B. Calvo
V. C. Pangelinan
Mark Forbes
J. F. Ada
T. C. Ada
F. B. Aguon, Jr.
J. M.S. Brown
F. P. Camacho
M. C. Charfauros
L. F. Kasperbauer
L. A. Leon Guerrero
K. S. Moylan
A. L.G. Santos
J. T. Won Pat

**AN ACT TO ADD § 1203(k) TO TITLE 12 OF THE
GUAM CODE ANNOTATED, RELATIVE TO
APPROVING THE ISSUANCE, TERMS AND
CONDITIONS OF BONDS BY THE ANTONIO B.
WON PAT INTERNATIONAL AIRPORT
AUTHORITY, GUAM FOR THE PURPOSE OF
REFUNDING PRIOR BONDS AND TO
AUTHORIZING THE ANTONIO B. WON PAT
INTERNATIONAL AIRPORT AUTHORITY, GUAM
TO ENTER INTO INTEREST RATE SWAP
AGREEMENTS.**

1 in furtherance of the purposes of this Chapter, including, without
2 limitation, contracts commonly known as interest rate swap agreements
3 or contracts providing for payments based on levels of, or changes in,
4 interest rates, or contracts to exchange cash flows or a series of
5 payments, or contracts, including, without limitation, interest rate floors
6 or caps, options, put or call to hedge payment, rate, spread, or similar
7 exposure with the parties, selected by the means, and containing the
8 payment, security, default, remedy, and other terms and conditions,
9 determined by the Authority, after giving due consideration for the
10 creditworthiness of the counterparties, where applicable, including any
11 rating by a nationally recognized rating agency or any other criteria as
12 may be appropriate; *provided*, that any obligation of the Authority under
13 any such contract shall be payable solely from, and secured solely by a
14 pledge of, revenues; and provided further, that for purposes of § 1206 of
15 this Chapter, such obligations shall constitute costs relating to the
16 ownership, use and operation of the airport.

17 Such contracts may include contracts pursuant to what the
18 Authority receives on up-front payment in exchanges for which the
19 Authority agrees to make payments based upon a fixed rate which is
20 greater than the fixed rate that the counterparty to such agreement
21 would require in order to agree to make prepayments based upon a
22 fixed rate which is greater than the fixed rate that the counterparty to
23 such agreement would require in order to agree to make payments
24 based upon the variable rate to be used to calculate the payments at
25 such counterparty pursuant to such agreement."

1 **Section 3.** The refunding interest rate on the variables rate bonds Series
2 2003 Refunding Revenue Bonds shall be *no greater than* the true interest cost of
3 four and seventy-five hundredth percent (4.75%).

4 **Section 4.** The “swap dealer” selected by GEDA shall provide any
5 insurance and/or collateral to ensure payments of its obligation to pay the
6 interest on the bonds due to the Authority. All legal documentation and
7 collateral shall conform to ISDA Master Swap Agreement and any
8 amendment to such documents in effect at time of issuance.

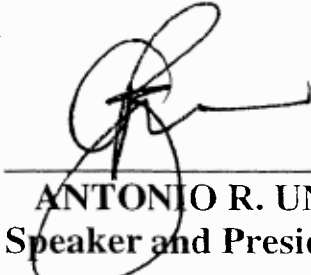


MINA' BENTE SAIS NA LIHESLATURAN GUAHAN
TWENTY-SIXTH GUAM LEGISLATURE
155 Hessler Place, Hagåtña, Guam 96910

2002 (SECOND) Regular Session

I, Antonio R. Unpingco, Speaker of *I Mina'Bente Sais Na Liheslaturan Guahan*, hereby certify, in conformance with Title 2 Guam Code Annotated § 2103, *Public Hearings Mandatory*, as amended, that an emergency condition exists involving danger to the public welfare of the People and therefore waive the statutory requirements for a public hearing on Bill Number 368 (COR), "AN ACT TO ADD A NEW SUBSECTION (k) TO § 1203 OF ARTICLE 1 OF CHAPTER 1 OF TITLE 12, GUAM CODE ANNOTATED, RELATIVE TO AUTHORIZING THE GUAM INTERNATIONAL AIRPORT AUTHORITY TO ENTER INTO INTEREST RATE SWAP AGREEMENTS," which was introduced on August 15, 2002, and therefore waive the statutory requirements for a public hearing on Bill Number 368 (COR).

Dated: September 3, 2002



ANTONIO R. UNPINGCO
Speaker and Presiding Officer

9/4/02

**MINA'BENTE SAIS NA LIHESLATURAN GUÅHAN
2002 (SECOND) Regular Session**

Bill No. 368 (COR)

As substituted by the Author
and amended in the Committee
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INTERNATIONAL AIRPORT AUTHORITY, GUAM
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1 **BE IT ENACTED BY THE PEOPLE OF GUAM:**

2 **Section 1. Legislative Findings and Intent.**

When market forces

3 are prone to wild fluctuations, the ability to enter into financing arrangements
4 that allow a borrower to “lock in” preferable rates is viewed as advantageous.
5 Due to tax restrictions, the bonds issued by the Antonio B. Won Pat
6 International Airport Authority, Guam (“Authority”) in 1993 cannot be
7 refunded or refinanced with tax-exempt bonds until the Year 2003.

8 *However*, by issuing taxable refunding bonds for such purpose and,
9 when permitted under tax law, refinancing such bonds through the issuance
10 of tax exempt refunding bonds and entering into an interest rate swap
11 agreement pursuant to and subject to the limitations set forth in the proposed
12 Subsection (k) added by § 2 hereof, the Authority will be able to lock in
13 today’s current low interest rates. *If* this proposal becomes law now, the
14 Authority can achieve more than Fifteen Million Dollars (\$15,000,000) in debt
15 service savings.

16 **Section 2.** Section 1203(k) is hereby *added* to Article 2, Chapter 1 of Title
17 12 of the Guam Code Annotated to read as follows:

18 “(k) enter into any contracts in connection with, or incidental to,
19 the issuance of bonds, or the carrying of any investment or program of
20 investment or entering into or maintaining any agreement which
21 secures bonds, which the Authority determines to be necessary or
22 appropriate to place the obligation or investment of the Authority, as
23 represented by the bonds, investment, program of investment or
24 agreement and the contract or contracts, in whole or in part, on the
25 interest rate, currency, cash-flow or other basis desired by the Authority

1 in furtherance of the purposes of this Chapter, including, without
2 limitation, contracts commonly known as interest rate swap agreements
3 or contracts providing for payments based on levels of, or changes in,
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7 exposure with the parties, selected by the means, and containing the
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8 amendment to such documents in effect at time of issuance.



MINA' BENTE SAIS NA LIHESLATURAN GUÅHAN

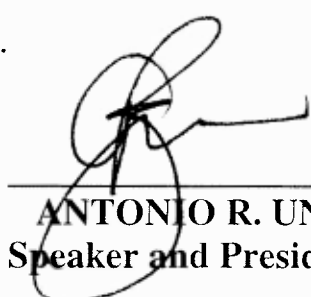
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Dated: September 3, 2002



ANTONIO R. UNPINGCO
Speaker and Presiding Officer

Presentation to:

Guam Legislature

Regarding:

**Guam International Airport Authority
Proposed Synthetic Refunding of 1993 Series A and B Bonds**

August 28-29, 2002



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1 Proposed Refunding Structure

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A-1 Mechanics of an MSL Swap

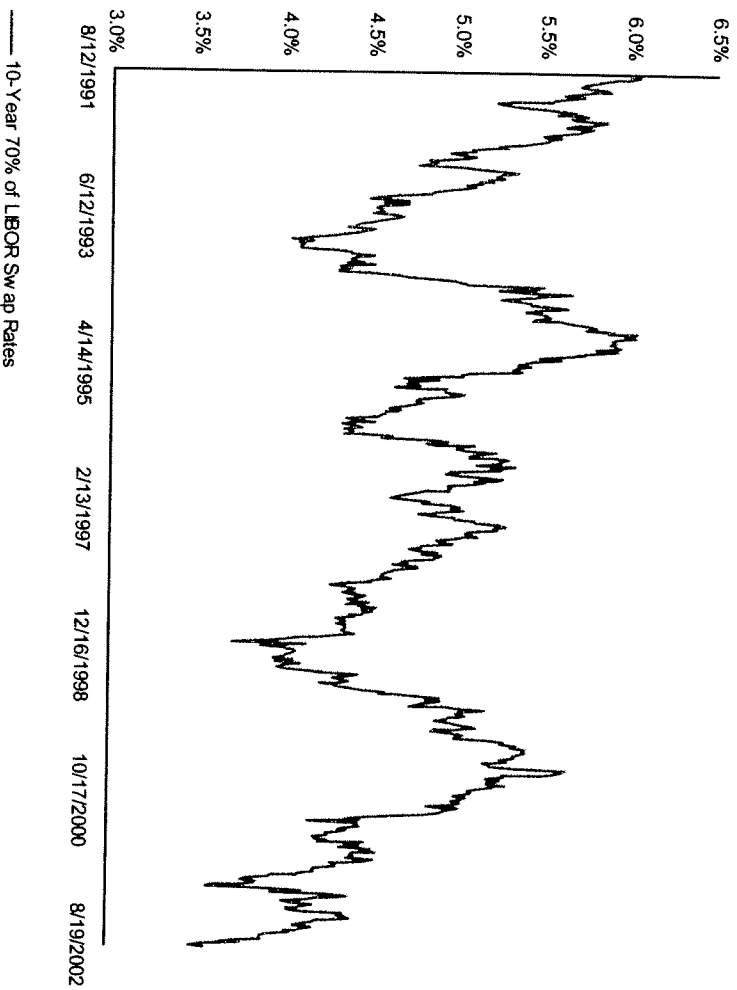
1 Proposed Refunding Structure

Overview of Refunding Opportunity

- The Guam International Airport Authority (the "Authority") has \$25,715,000 of General Revenue Bonds 1993 Series A and \$180,860,000 General Revenue Bonds 1993 Series B with coupons ranging from 6.375% - 6.70% which are not callable until October 1, 2003.
- Current tax law does not allow for these bonds to be refunded with tax-exempt bonds until after July 1, 2003.
- Salomon Smith Barney ("SSB") has been hired by the Authority and GEDA to structure a derivative transaction that will take advantage of today's low interest rates and lock-in savings.
- This will be done through the issuance of taxable variable rate bonds (auction rate securities) today which will be replaced with tax-exempt variable rate bonds (tax-exempt auction rate securities) after July 1, 2003.
- The Authority, rather than paying the variable interest rate on the taxable and tax-exempt bonds, will enter into an interest rate swap with Salomon Smith Barney and pay a simple fixed rate on the refunding bonds.
- This fixed rate, if in place for the remaining life of the bonds (through 2023), is expected to provide significant debt service savings to the Authority.

Fiscal Year	\$ Savings
2003	\$10,350,000
2004	9,567,000
2005	9,565,000
2006	5,667,000

Present Market Interest Rates are Near Historic Lows



The Authority will produce significant savings if the refunding is completed:

- Existing 1993 Series A and B Average Coupon = 6.66%
- Synthetic 1993 Series A and B Refunding Yield¹ = 4.05%
- Present Market Present Value Savings² = \$32.65 million

¹ Estimated

² Based on Current Market Rates

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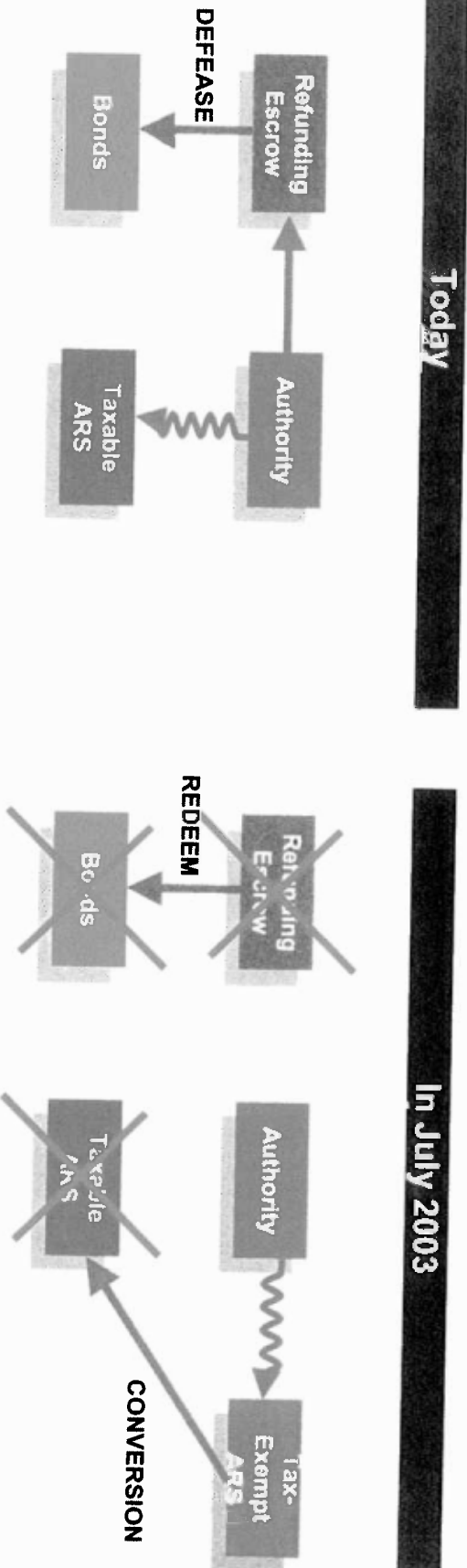
Steps Needed to Accomplish Refunding

1. Implement Authorizing Legislation
2. Obtain Bond Insurance Commitment
3. Prepare Legal Documentation
4. Execute Swap and Issue Taxable ARS

Description of Swap Transaction

- The Authority will produce present value savings by defeasing its 1993 Series A and B Bonds. To accomplish the refunding, the Authority will:
 - ↓ Issue taxable ARS today to defease the outstanding 1993 A&B Bonds
 - ↓ In July 2003, the taxable ARS will be remarketed as tax-exempt ARS
 - ↓ The variable rate bonds will be converted to a single fixed rate (well below the existing coupon rates) through a floating -to-fixed interest rate swap
 - ↓ The single interest rate swap (accounting for the taxable period prior to the call date) would need no further modification after issuance

Bond Structure for Refinancing



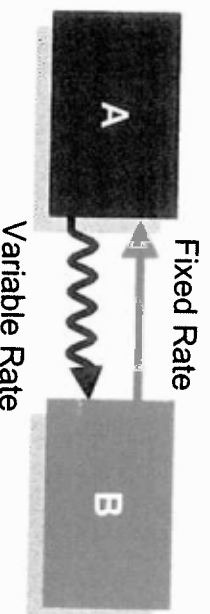
APPENDIX

A-1 Mechanics of an MSL Swap

A Swap is a Contract to Exchange Cash Flows

- Party A (SSB) agrees to pay Party B (GIAA) a floating interest rate versus receiving a fixed interest rate
- Party B (GIAA) agrees to pay Party A (SSB) a fixed interest rate versus receiving a floating interest rate
- Principal is not exchanged
- Payments are typically netted
- Swap fixed rate curve “shape” similar to taxable yield curve
- Swaps have been executed with terms of up to 40 years

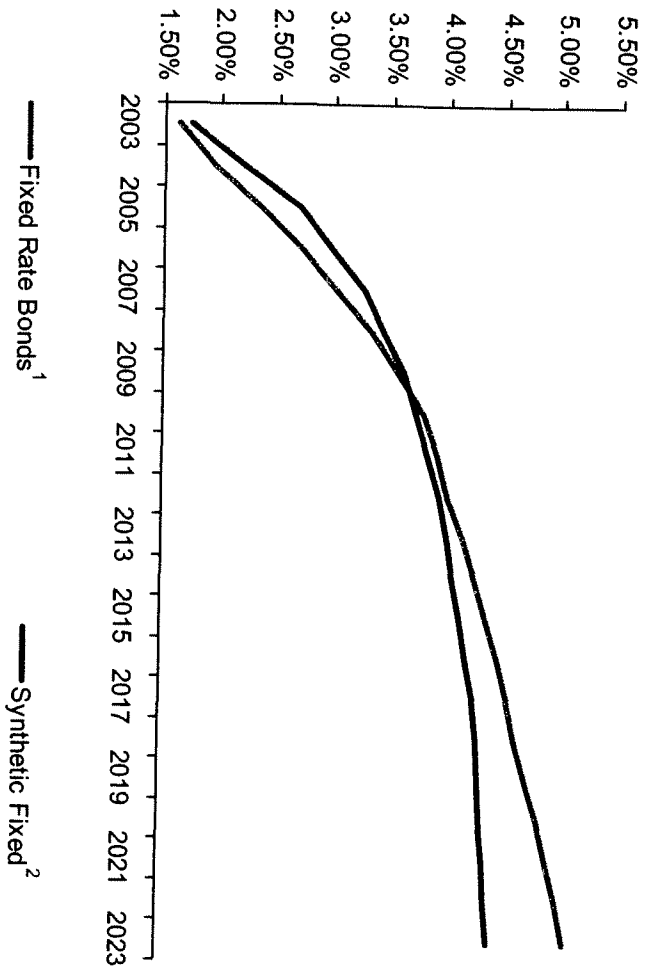
This swap is a “Fixed Receiver Swap” to A and a “Fixed Payer Swap” to B



Why Synthetic Fixed Rate Bonds?

- 15-year Synthetic Fixed Rates are currently 29 bps below traditional (non-callable) 15-year tax exempt yields
- The average life of the Authority's 1993 Series A and B remaining debt is 13.2 years

Non Callable Bond Rate vs. Synthetic Fixed Rate



Term	Current Fixed Bond Yields ¹	Synthetic Fixed Rate ²
1	1.63%	1.72%
3	2.35%	2.69%
5	3.01%	3.26%
7	3.55%	3.60%
10	4.00%	3.92%
12	4.24%	4.05%
15	4.53%	4.24%
20	5.06%	4.37%

"Natural" fixed rate bonds are increasingly inefficient in the longer maturities. This reflects the liquidity, credit and tax event risks borne by investors in long-term tax-exempt bonds.

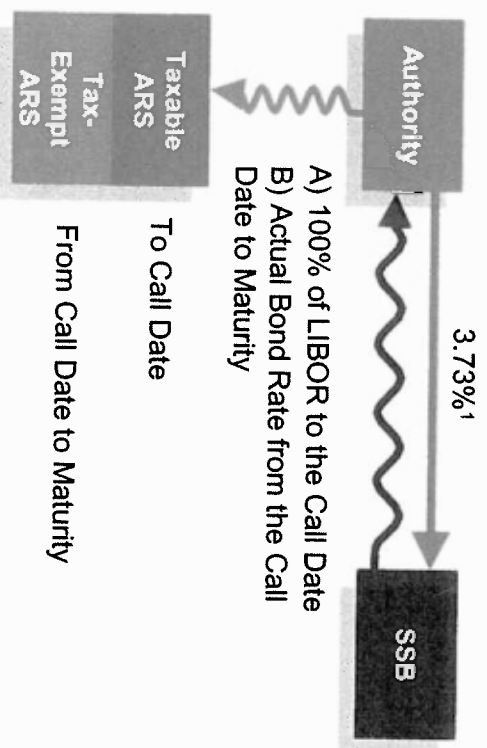
Note: Rates as of 8/20/02

¹ Non-callable, insured fixed rate bonds.

² Synthetic fixed rates include 26.5 bps for auction fees.

Synthetic Fixed Rate

- SSB pays the Authority a rate which closely matches underlying variable rate bonds
- The Authority pays a fixed rate over term of swap
- Effective cost may be higher than fixed swap rate if tax-exempt bonds can not be issued or if Alternate Rate Event occurs



¹ Term to Maturity
For illustration purposes only; actual results will depend on future market conditions.

Market Spread Language Swap Features

- Salomon Smith Barney pays the actual rate on variable rate bonds
- After an Alternate Rate Event, SSB may pay an indexed rate, rather than the actual bond rate. This creates basis risk, the possibility that the floating rate received will be less than the bond rate. If the Alternate Rate Event is no longer occurring, SSB will return to paying the actual bond rate
- An Alternate Rate Event, if it occurs, will likely increase the Authority's interest cost, resulting in higher annual debt service and lower present value savings

Bond Rate Swap with Market Spread Language (MSL)¹

Authority Pays	Fixed Rate
SSB Nominally Pays	Bond Rate
Alternate Rate	71% LIBOR ²
Key Alternate Rate Events	<ul style="list-style-type: none">• Bond rate exceeds 71% LIBOR for 180 days• Default• SSB or designee not broker dealer• Non-issuance, conversion, redemption

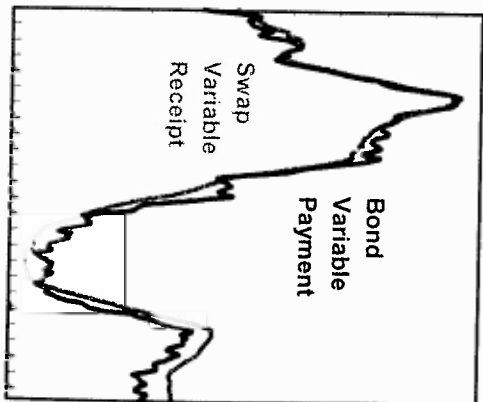
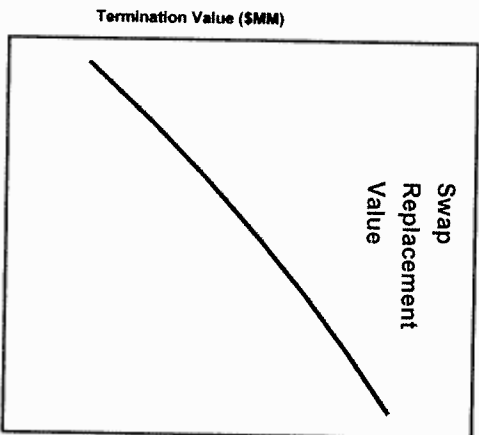
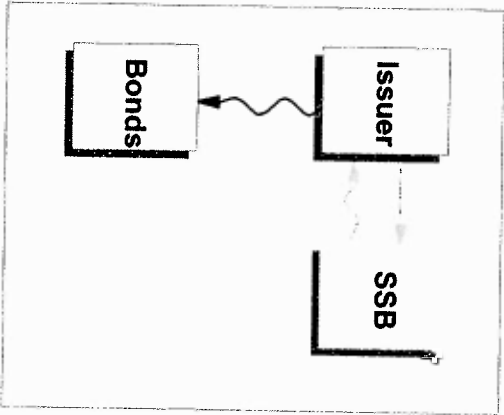
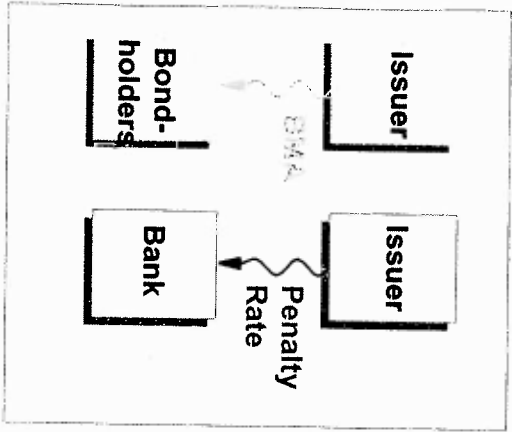
¹ See swap documents for full description

² The London Inter-Bank Offered Rate, a taxable index reflecting yields on US Dollar deposits at London Banks

Salomon Smith Barney Can Mitigate the Primary Risks

RISK

ARs Risks	Termination Risk	Credit Risk	Basis Risk/Benefit
Failed auction results in penalty rate.	Swap ends prior to maturity of variable rate bonds.	Swap Dealer defaults when swap rates are high.	Swap variable rate index may be less than bond rate; tax event risk.

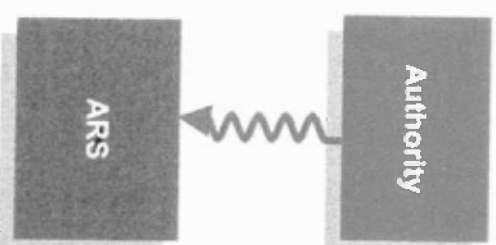


MITIGATION

ARs risks mitigated by bonds insurance.	Swap & bond maturities match. With insurance, SSB cannot terminate without event of default/termination & insurer downgrade/default.	Salomon Smith Barney obligations are guaranteed by a Aa1 holding company, collateral, if downgraded.	Actual bond rate structure eliminates basis risk, under normal circumstances.
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The Authority Will Issue Auction Rate Securities (ARS)

- Long-term nominal maturity and 35 day interest rate reset
- Interest is paid every 35 days
- "Dutch" Auction resets the interest rate to price securities at par
- Bondholders' right to tender securities limited to auction
- No bank liquidity facility required
- Callable at par on any interest payment date
- Book-entry only



ARSS represent one of the most efficient sources of tax-exempt funding. The market for these bonds is liquid, homogeneous and competitive, resulting in low funding costs.

Decision Points - Floating-to-Fixed MSL Swap

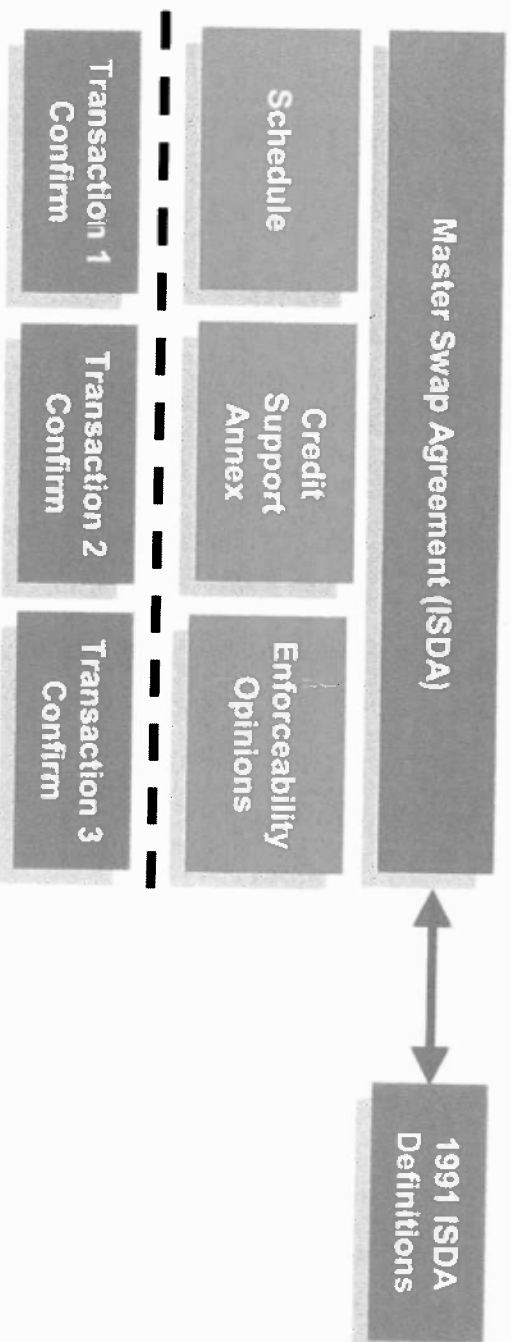
Benefits

- Lower, long term fixed rate than "natural" fixed rate bonds resulting in greater refunding savings
- Budgetary certainty -- no basis risk under normal conditions
- Standardized documentation may be executed quickly
- "Make-whole" call flexibility -- swap may be terminated for market value and the bonds redeemed at par prior to maturity
- Diversifies investor universe

Considerations

- Alternate Rate Events entail potential tax and basis risk
- Credit support required for variable rate bonds
- Liquidity renewal and remarketing risk (mitigated by insurance and/or long-term liquidity facility, if available)
- Swap is economically non-callable
- Credit risk to SSB (mitigated by Aa1/AA-/AA+ guarantee)
- Early termination may result in cost or benefit depending on market conditions
- Consult auditors regarding accounting treatment

Legal Documentation is Standardized by the ISDA



- ISDA Master Swap Agreement: defines obligations of counterparties for all future transactions
- ISDA Definitions: Defines how payments are calculated, defines how floating rates are determined and other terms in the standard Master Swap Agreement
- Schedule: Modification to Master Agreement integrating counterparty specifics such as security and source of payment, options selected under the Master Agreement
- Credit Support Annex: Addendum to Master Agreement relating to collateral requirements
- Enforceability Opinions: Counsel opinions that counterparties have executed valid and binding contracts under applicable law
- Confirms: define specifics of each transaction (notional amount, fixed rate, payment dates, etc.)