



**TO:** SBWMA Finance Team

**FROM:** Jeff A. Stava

**DATE:** May 21, 2009

**RE:** Proposed Term Sheet for Member Bonds  
290896-0001

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In connection with the proposed SBWMA financing, it has been requested by some Members that the Board consider simultaneously privately placing not-to-exceed \$10 million in bonds (the "Member Bonds") with certain Members interested in such an investment. In order to avoid rating problems (primarily resulting from default risk if surplus revenues aren't sufficient to pay the short term obligations), the Member Bonds will be subordinate to the publicly offered obligations. The following outlines the major differences between the senior, publicly offered obligations (the "Senior Bonds") and the Member Bonds:

- Maturity of Member Bonds to be no greater than 5 years, with semi-annual interest only payments until maturity.
- Interest rate established at arms-length, market rate (as verified by an independent pricing agent); Interest rate not to exceed rate on a special term Senior Bond with a 5-year optional redemption provision.
- Issued in minimum denominations of \$100,000.
- No call protection (redeemable in whole or in part on any date prior to maturity).
- No reserve fund for the Member Bonds, and no access to the Reserve Fund created for the Senior Bonds.
- Payment of semi-annual debt service on Member Bonds payable from surplus Net Revenues after payment of debt service (including Reserve Fund replenishment) on the Senior Bonds.
- Unrated; because the Member Bonds will be subordinate, they will be of lesser credit quality than the Senior Bonds. The Senior Bonds are expected to have a

credit rating, while the Member Bonds will not be rated. It may be difficult, if not impossible, for the owner to sell the Member Bonds prior to maturity.

- Authority is able to sell additional obligations on parity with the Senior Bonds, or subordinate to the Senior Bonds but senior to the Member Bonds, without consent of owners of Member Bonds provided Authority is in compliance with the Rate Covenant (described below).
- Rate Covenant will track first part of Senior Bonds covenant--annual Revenues equal to one times M&O, debt service, reserve fund replenishment and other obligations (including payments on Member Bonds) payable from Revenue Fund (no coverage requirement).
- Default under Member Bonds will not trigger a default under Senior Bonds, but a default under Senior Bonds will be a default under Member Bonds; if there is a default under Senior Bonds, all amounts due on Senior Bonds will be paid prior to any payment under Member Bonds.

While the owners of the Member Bonds will be receiving the benefit of the initial disclosure and continuing disclosure obligations of the Authority, such disclosure will not reflect the additional risks associated with the subordinate nature of the Member Bonds. Subsequent resale of the Member Bonds will be restricted to "accredited investors," as certified at the time of resale.