IDAHO WATER RESOURCE BOARD

MINUTES OF MEETING NO. 01-02
Tuesday, January 22, 2002
at the
Idaho Department of Water Resources
Boise, Idaho

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Meeting No. 01-02 of the Idaho Water Resource Board was called to order by Chairman Joe Jordan on Tuesday, January 22, 2002 at 4:00 p.m. at the Idaho Department of Water Resources, 1301 North Orchard Street, Boise, Idaho. (Cassette Recording Tape No. 1).

Agenda Item No. 1, Roll Call

Board Members Present

Joe Jordan, Chairman	Jerry Rigby, Vice Chairman
Dick Wyatt, Secretary	Bob Graham *(participated by phone)*
Leonard Beck *(participated by phone)*	Claude Storer
Terry Uhling	Gary Chamberlain

Idaho Department of Water Resources' Staff Present

Hal Anderson, Administrator	Bill Graham, Planning Bureau Chief
Rita Fleck, Administrative Assistant	Brian Patton, Staff Engineer
Dave Blew, Recharge Coordinator	

Guests

Jim Wrigley, Wells Fargo Bank	Rick Skinner, Skinner-Fawcett

Motion: Jerry Rigby made a motion to add an item to the agenda, which will correct a very minor error in the Little Salmon Basin plan. Dick Wyatt seconded the motion.

Voice Vote: 5 Ayes, 0 Nays, 3 Absent. *Motion passed.*

Agenda Item No. 2, Public Comment

No public comment.

Agenda Item No. 3, Fall River Rural Electric Cooperative – Refund

Jim Wrigley, financial advisor, reviewed the Fall River Rural Electric Cooperative ("Fall River") refund. At the last Board meeting, the Board passed a resolution authorizing to proceed with refunding the 1993 bond. Mr. Wrigley has information he wants to bring to the Board prior to moving ahead with some of the details of that refunding.

Mr. Wrigley met with the administrator for Fall River and their Board of Directors to determine best way to structure their refunding. The proposal is in two pieces. The first piece is to refund the existing 1993 bonds for the Island Park Hydro Electric Project in the amount of

$6,245,000. They were issued as taxable bonds at a 9.5 percent fixed rate. The call date on the bonds is April 1, 2003.

The second is the Construction Finance Corporation ("CFC") debt allocated to the Island Park Hydro site. The interest rate is high and the marketplace is lower. They would like to refund this CFC debt with new money, $3,645,000, to be issued as bonds.

It is estimated that Island Park Hydro is worth $12.5 million. A bank order of credit could be about 75 percent of that at $9,375,000. A refunding of the existing Island Park bonds is $5,730,000. New money, $3,645,000, would be used to refund the CFC loans. And then we would take the existing bonds issued by the Board, have $800,000 in debt service reserve, we would bring those funds that are cash back into the deal to form the total sources for the project. This refunding of Fall River would be partial refunding-partial new money. The total bond amount would be approximately $9,375,000.

Discussion continued regarding the The resolution passed at the last Board meeting authorizes movement forward on the bond request. However, before the issue is finalize, there will be a subsequent resolution drafted by Mr. Skinner, counsel to the Board, that will detail the specifics of the financing.

Jim Wrigley: Mr. Chairman, Mr. Graham, no, as long as we have a letter of credit on the principal amount of the bonds, the Board is well secured that way. The letter of credit will cover 100 percent of the bonds plus 45 days interest and that is much greater than the $800,000, which was basically approximately one year's debt service.

Bob Graham: And in the increase of additional work, the 3 million or so on top of the current standing mount of debt money is well as protected as the original bond.

Jim Wrigley: Mr. Chairman, Mr. Graham, that is correct. The original Water Board's bond is secured by Island Park Hydro facility. The CFC portion, that extra $3 million currently is covered under the liens that are on the rest of the system that CFC has.

Bob Graham: And the 9.5 to something in the vicinity of 7 would be a correct assumption right now for their interest rate.

Jim Wrigley: That is correct, yes.

Bob Graham: Are they taxed exempt to either state or fed?

Jim Wrigley: Mr. Chairman, Mr. Graham, Mr. Skinner says that they may be state tax-exempt but they are definitely federally taxable.

Bob Graham: Okay, even with the increase, $3 million plus, you don't need to change that resolution?

Jim Wrigley: Mr. Chairman, Mr. Graham, Mr. Skinner say that they may be state tax exempt but they are definitely federally taxable.

Bob Graham: Okay, even with the increase $3,000,000 plus you don't need to change that resolution?

Jim Wrigley: Mr. Graham, that was Mr. Skinners interpretation that other than recognizing that that resolution has a requirement for $8.5 million, if the new resolution or just in _______the Board an understanding that that could go up to a higher number based upon these needs as we finalize those

Bob Graham: The resolution is simply to precede with the study of it, not the commitment to do the bonding?

Jim Wrigley: Mr. Chairman, Mr. Graham, that is correct, that basically this would authorize everyone to go forward. It would be back before the Board at your next Board meeting for whatever necessary sales resolutions or whatever.

Bob Graham: That is all I have, Joe.

Joe Jordan: Okay, thanks Bob. Mr. Rigby.

Jerry Rigby: Mr. Wrigley, I need educated. I am just a little old simple farm boy. Here we go. You know I look at this and I am really curious. I have seen Enron and I have read about it, I remember the situation with the trust years ago and we band around 8, 9, 10 million dollars like it was few hundred bucks. But it is all driven and I went through a bankruptcy in a farm equipment dealership for the same reason Enron did. I had a guy that was showing assets and wasn't showing liabilities, and I am curious even from your standpoint, all of these things only flow if there is money there to pay. When the bottom line comes out that is what drives the whole caulk-eyed train. Where in this process do you or anybody else actually know that the financially system is sound. They don't have phony records kept, that the generating equipment will operate and is not going to fail in two or three years. Like at Dworshak we found out up there if those valves go out we are out of production. We are talking about a million dollars to replace the water line and we are not generating the revenues. Where does a study, independent study, ever occur in this process to guarantee to you that money will be there 20 years from now, 50 years from now at worst case scenario and even us. And I am just curious.

Mr. Wrigley: Mr. Chairman, Members of the Board, first off, all the bonds that the Board issues and proceeds are loaned to other folks without recourse to the Board, the state or any other public entity. Now these bonds are contemplated to be secured by a letter of credit from a bank. And that letter of credit bank will then do its due diligence, its studies investigations; do what it does in its normal course of business to extent a letter of credit. Now should they, in that process, that bank or some other bank can't do that then these bonds won't be issued. This thing will live and die on that credited enhancer doing his due diligence and then finding that everything is okay there.

Jerry Rigby: So that is the true check valve of the whole thing. Which bank is that?

Jim Wrigley: Well, additional we go to Wells Fargo just because that is a double A and then we go down from a double A, we will go to U.S. Bank and Key Bank.

Jerry Rigby: So it up to them to do whatever study is necessary to gather all of this information that I just asked about?

Jim Wrigley: Yes, that is correct and what they will do, depending upon the nature things and especially in something like this where hydropower is a complicated subject, it is not unusual that they would hire an engineer to review some of the documents, particularly hydrology. Whether the hydrology makes sense or other engineering functions to make that due diligence.

Jerry Rigby: Well, if the state has no liability, why do they even need the state? I mean if we are not involved, we are not liable, the whole thing can collapse and so we never have any liability, why are we even in this train?

_________: Our bonding authority.

Jerry Rigby: You mean the bank doesn't have bonding authority that they can get? If you're going to provide something, there has to be an obligation there. So how can we just stand up there and never have any obligation. I don't understand that. I understand the bonding capacity, but where does the guarantee come. Doesn't some place along the line the bottom falls out; they come back to the state and say….. Why do they need us?

______________: It is none recourse to us and your right you ask why. He is probably better to answer this. But first of all, <u>solubility</u> too, I assume that is a big plus. Idaho Water Board that is a solubility to sell these things.

Jerry Rigby: We are creating a perception that isn't there.

______________: No, that makes it seem like its in court. Well, Mr. Skinner should be the one to answer this.

Rick Skinner: I not sure I am the right one to answer, but Mr. Chairman, I think there is probably a three-part answer. If these funds were tax exempt and that there may be a state tax exemption, it doesn't make a big difference, but it gives a little bit. In this transaction they will not be tax exempt. But for many of the bonds that come before you they are. The only way they can get that tax exemption is if they go the Idaho Water Resource Board, regardless of who is liable for the bonds. That is one point.

Second is that, and this is probably a Jim Wrigley answer but, in order to best market the bonds, to reach the people who will buy them, invest in them and pay the best interest rates for the borrowers, it usually works better if the bonds are issued by, even though there is no liability by, but are issued by an entity which is some type of governmental entity. That market usually produces a better interest rate. Than if Fall River went out, which it could theoretically do, issues its own bonds with no Idaho Water Resource Board or anybody else, those bonds would not have the same perception or what ever you want to call it, it wouldn't be able to reach to as many investors and therefore get the competition that gives the best interest rates.

Jerry Rigby: But those buyers are saying, in there mind, the perception is there, that the State of Idaho is behind this and gives the king's blessing if you will and in reality it is not.

Rick Skinner: No, I don't think that it is that the state is behind it. And they are going to phrase in bold print on their bonds and on their disclosure documents and everything that that is not the case. The market that there that you can sell them to is broader and has people who will pay better than the market that would exist just for Fall Rivers' project. I don't know if I said that already.

Joe Jordan: Let me try another approach on it Mr. Skinner, I know the least about financing here. It is my understanding that the Board cannot commit to faith and credit of the state and we don't do that but certainly if the Board, if we enjoy this blessing, this powder that we sprinkler on and they sell better, then we use some judgment when we decide that it is a good project. If I could go ahead from there for just a moment, I'm concerned in that the amount that they wanted to borrow or refund or combined is now over $9 million, it is a 5 megawatt plant. The 5 megawatts isn't as good a measure of the value of the project as how much it generates and I think that Brian said 20gigawatt hours a year. Did you say 20?

Brian Patton: On average, yes.

Joe Jordan: This is rough, but you take 4 cents times 20gigawatt hours a year. Four cents, I don't know whether that is that great or not but you get $800,000 a year, less than a million dollars a year for those <u>revenues</u> in that class. I don't know whether that justifies a $9+ million project or not. It sounds a little marginal to me but that is one of the things we need to put on the list of things to look at. But I think this a valued project and probably in terms of what it generates driving just how big it is. Go ahead, Mr. Skinner.

Rick Skinner: Mr. Chairman, I think is a valid concern at least up to some claim. But I think that you would want to be somewhat careful with the Board did not impose its own financial judgment here. I don't think you want to be in the position of saying this is a good deal financially, we have looked at it and it has passed our test. I think it is okay to have some sense that it is not a flaky transaction, but entity that is going to bear the real risk here will be the bank. The way the letter of credit transaction works is that the bank will pay bonds and then Fall River will pay the bank. That is how the letter of credit transaction works. So they are on the line to pay these bonds from day one, principals and interest. Every time there is a payment made a letter of credit is drawn upon to make that payment. And that is why you get the good credit rating for the bonds; it essentially transfers the bank's credit to the bonds. So if I am the banker I know that I am on the line completely for this deal. And the banker then is going to have to do the review to make sure that entity will be able to __________

Joe Jordan: Do any other Board members of any concerns from the standpoint of whether this is the kind of project that we should become involved with? I am not suggesting it is not, but I think we need to know a little bit more about it and we are all agreed we are going to do more listening. Mr. Skinner.

Rick Skinner: Mr. Chairman, the only other thing I would say that maybe, and Jim maybe is going talk about this, and I have to be careful on that, lawyers don't know much about financial stuff, Jerry probably does and Terry probably does too. Ordinary lawyers ….. One thing that may be is worth keeping in mind here is what is happening is that that existing debt has been refinanced. And so they have been making the payments along at a higher interest rate than that these bonds will bear. And so I suppose it might be worth looking at that they made all the payments, they made them on time, what was the likelihood that they weren't going to make those payments. That is the banker's issue really but just from a common sense standpoint they are paying this debt now and they have paid it for almost 10 years, 9 or 10 years. So maybe there is something there that could be looked at in the process.

Dick Wyatt: Chairman, Mr. Wrigley, to we ever get a copy of this due diligence report that the bankers use or is that all of this top secret stuff that gets shredded when the tubes go down. Are those things public information? Would they come back to us or not?

Jim Wrigley: The information between the bank and its clients out there is usually confidential. The Board has never thrust itself into those credit decisions and don't usually ask for that type information. Probably becoming from Fall River but any bank would probably very low to give you that and preach confidentiality.

Jerry Rigby: My only concern with the questions you are asking, and of course I am trying to keep silent on this particular case because as everyone knows Fall River is our client, but we are talking in general now. My concern is getting involved with the very issues that Mr. Skinner said and where we didn't have liability, making statements or putting ourselves into a position to where we have represented something and creating liability. And for that reason I am concerned about even going as far as some the questions are suggesting we go, whether this one or any of our bonding; because it is not our water to tread

Dick Wyatt: So you put your head in the sand, you take your money and you go home. That is, basically, what you are doing.

Jerry Rigby: You are getting paid. And I always lived under the thing whenever somebody pays me I have an obligation.

__________: But my concern is, on behalf of the Board, I certainly don't want to impose additional liability to the Board, and that is where I'm concerned.

_______: I don't disagree with you.

Jim Wrigley: Mr. Chairman, Members of the Board, if I could call your attention to the very last page of these four pages that have I sent around. Please recall that the Fall River has been paying a debt service payment in the neighborhood of $860,000 to $890,000 a year on the Water Board Bonds and in paying a payment over on the portion of Island Park being carried by CFC. This is the refunding analysis only for the Water Board's bonds. You notice under that column of net new debt service this action would be lowering your payment for roughly $650,000. And that produces savings here of, you see that last column there, of over $200,000 a year, about a

$1,630,000, roughly 27 percent present value savings. What they are wanting to do in this analysis also is, they are saying take present value savings on the bonds to zero and then add in the additional dollars to replace the CFC debt. So there are some refunding savings over on the CFC debt also. They are not doing anything to increase there debt service burden but decrease it both on the Water Board's bonds and then on the some portion of their CFC debt. And then I might mention one other benefit for the Fall River to come to the Board is, Rick, if I am not mistaken, for Fall River to issue their own bonds would be self-registration and all these other things that they would have to deal with going into the market, where they don't have that coming to the Board in a municipal market.

Rick Skinner: It is more complicated. They could do it but their transaction cost would probably be higher in order to achieve the compliance, in essence, of the requirements. But it probably could be done.

Joe Jordan: Other questions for either Mr. Wrigley or Mr. Skinner?

Bob Graham: Somebody else walked in the room, did another member show up?

Joe Jordan: Terry Uhling is here.

Bob Graham: Oh, good.

Joe Jordan: We are all accounted for except Gary Chamberlain.

Bob Graham: Good, I wanted to see if there was another attorney in the room before we take Jerry on.

Jerry Rigby: I had a feeling there was a reason for your question.

Bob Graham: I don't quite understand Jerry's statement. Jerry, on our liability, don't get into those waters. You don't need to. From what Dick's questions were it would strike me that the type of information that he was looking for we should have probably been made aware of the up current information when the first bond went out but what I don't see is why our trying to be better informed would increase our liability any. When you made your statement about don't get into those waters if you don't need to. It seemed to me like all we are looking for is simply information that is already out there to the bank that would give us a little better basis for deciding the wisdom of proceeding.

Joe Jordan: Mr. Rigby, you want to ….

Jerry Rigby: Yes, I do. You misinterpreted what I had to say. My concern was the same. I was taking off from what Mr. Skinner had to say, which is this. If in someway the perception to the public out there on the value of these bonds is changed because of this Board's decision that this is either a good project or not so good a project or that this is incapable of producing, and again, I am talking general here, it is the same with United Water, their refinancing. So I am talking generalities here. If we get into saying, to determining, that this cost-ratio is not so good as good as another cost-ration, then we are putting out there a perception that would either help or hinder the sell of these bonds. That to me is treading water where we shouldn't be treading. Because to look at a documentation that is already out there, I did not want to infer that we play the ostrich, absolutely not. My concern is making any kind of resolution or determination. This Board that would in anyway inhibit or actually sell greater than what is out there, these bonds. That is my concern.

Bob Graham: I can accept that. I think would need to be cautious about changing the marketability of the bonds, which I think is what Mr. Skinner was saying. But I think also that we do need to be as informed as we can when we decide to proceed, particularly proceeding with the sale of bonds. I know I may have misinterpreted what you were saying because in order to deal with an attorney you have got to be there and eyeballing his body language and I am unable to do that over the phone.

Joe Jordan: Board members let me see if I can summarize where we are, if we don't move on we will be here all evening. I didn't have any idea we would generate this much interest and I think I am still lead a little toward Mr. Wyatt view here in this respect. I believe the code requires that we consider economic feasibility in any funding that we do. I may be wrong on that. Do either of our attorneys have…

___________: I don't know off the top of my head.

___________: I know that for loans and grants.

Joe Jordan: For loans and grants, but I am not sure it restricts it to that. I guess my point is this. I believe that if a bond issued with the sponsorship of this Board is more marketable than otherwise then we should have some responsibility to look at that project and get the information to do that.

___________: I agree that we need more information and maybe we can leave it at that for now.

Joe Jordan: Anyone else on the Board have any comments?

Jim Wrigley: Mr. Chairman, Member of the Board, I think what could be provided to you is a debt service coverage number that you have seen before. Also, I think that we would probably ask Fall River to give us what information they could to explain that number, modify that number with their exchange agreements and other things they have with Bonneville Power and their load service and all of that, that maybe go on just beyond the individual plan.

Joe Jordan: The debt service coverage would answer my questions because it would pick up the revenue versus the cost of retiring bonds wouldn't it?

Rick Skinner: We can provide that.

Terry Uhling: Sorry, I apologize for being late. Just listening, I guess I do have one basic question, which I think you have already answered. But if, in fact, irrespective of the debt service, the bonds are financially guaranteed in a fashion to protect the bonds holders at the end of the day, then I don't know exactly what the inquiry would be that would be appropriate of the

Board. Because at some point, the concept, it is not the project so much that I guess as a Board member I would be worried about, it is the folks that purchase the bonds that go out under the IWRB name. If, in fact, there is a letter of credit or some other financial mechanism that the financial institution requires to feel it is sufficient to cover that, and we feel sufficient to cover that, then maybe the next question may be more appropriate to be left between the bank and that particular holder. So I don' know the answer that question but I thought at one point that is one of the things we discussed and my concerns drop dramatically if that is the kind of financial assurance that is in place so the folks who have these bonds have the backing at that point in case say the debt service doesn't work out. At least that is way to be made whole under the bonds.

<u>Jerry Rigby</u>?: And, Mr. Chairman, that goes along with what I'm saying. Because then you are putting yourself in the bank's position and maybe and perhaps mudding that up as far as the bank is concerned. Because that is for their decision, I think our responsibility is to the purchaser of those bonds. And if they are assured, I think maybe our inquiry needs to be more into if the bank is in a position to adequately fund this if they are called on rather than will a project, as United Water, be able to pay it off the debt.

Joe Jordan: Interesting point. Anymore?

<u>Jerry Rigby</u>: Mr. Chairman, that brings it right to the crux of it. That was my whole concern was the guy, you know we hear about all these people on the bottom line, and that is with a short bond, so I don't what to go out and create any other information but I want to make darn sure that the bank has got that information. What we are asking for is some of the information they would have and I guess that is one of the questions that I have in my note <u>paid</u> over is what happens if the bank goes under, I mean where does that guarantee go back to the guy that buys the bond?

Inaudible conversation between Board members.

Joe Jordan: I think that you have heard the Board's concerns and they are not all in line with each other but can you help us out with the questions that we have.

<u>Rick Skinner?</u>: I think so; I think that , again this probably the financial advisor, Mr. Wrigley, can furnish you with debt service coverage information based on the revenues. That should show you, at least based on what they are reporting and so forth, that there is <u>comfort</u> for this. The second thing is thing is that he can also show you that whoever that letter of credit bank ends up being, he can show you what their financial position is. And obviously no matter what you do and how many guarantees you have there is a circumstance with those guarantees might not be there, if you really want to imagine the worst case. If that happens, we probably have got a lot other trouble in a lot of other areas as well. Yes, but that could happen. You can tell you if it Wells Fargo, if it is U.S. Bank, what is their financial position, what is their likelihood of being ……………

Joe Jordan: Moving on. We are not taking action today, Mr. Anderson, but we have requested additional information and __________ status of the project.

Hal Anderson: Mr. Chairman, that is correct. I do think that we need to make sure that everybody is aware that the minutes reflect that I think the major issue for the Board is that the amount that is being discussed now with Fall River is higher that the initial amount that was proposed to the Board. If everybody is aware of that we will make notes of that in the minutes so when comes to the final resolution that will be prepared by bond counsel, Mr. Skinner, prior to moving forward with the issue that we should be at this point fine. And I would say that we also make sure that before that time, at the meeting when we take action on the enabling resolution for the issue that we will have Mr. Wrigley bring the debt service schedule and maybe, I don't know, the prospectus for the bank or something like that.

Joe Jordan: Just to wrap this up then, are they any objections from any Board members to our going ahead under the terms of the previous resolution, that knowing the amount is greater, are there any objections? Hearing none, we proceed that way. Thank you, Mr. Wrigley, Mr. Skinner

Jim Wrigley: Mr. Chairman, if I could mention one other thing here. Could this particular borrower ask you to consider at a future Board meeting in held in Eastern Idaho, so there is not a large rush, they would like to meet with you in one of your work sessions to discuss their license applications over at Hebgen. And how that might effect maybe possible financing with the Board and that is an Idaho water project. So I told them that I would more than happy to carry that message.

Joe Jordan: I didn't understand that. The license application for what?

Jim Wrigley: For a hydropower project on Hebgen Lake, which is just across the boarder into Montana. But the power is used over in Idaho, in their service area. So they wanted to explore that with you at some point and I suggested to them that perhaps in one of your work sessions might be the most appropriate way to do that.

Joe Jordan: We are nervous about Island Park. What do you thing about how we will feel on Hebgen Lake. That notion, an earthquake place.

Jim Wrigley: We will give you new annexation power or something.

Joe Jordan: Very good, we will try to have a meeting over that way. So considered. Mr. Anderson, where are we?

Agenda Item No. 4, Dworshak Small Hydropower Project – Potential Refund

Hal Anderson: Now that we have the easy one out of the way, we are going to be moving on agenda item no. 4, which is the Dworshak Small Hydropower Project. At the last Board meeting, you remember that the Board had requested some additional financial information to be developed and modified the enabling resolution to move forward on the refunding of the Board's Dworshak Small Hydropower Project revenue bonds. Since that time, Mr. Patton and Mr.

Wrigley have been working on the financial information that you have included/enclosed in your board folder. I have asked Mr. Wrigley and Mr. Skinner to be here for the discussion and proposal for the refunding scenario and I will go ahead and turn it over to Mr. Wrigley.

Joe Jordan: Welcome, Mr. Wrigley.

Jim Wrigley: Mr. Chairman and Members of the Board, this is probably one you should pay close attention to the creditor. Mr. Chairman, what we have tried to do is come up with a way of refunding the existing Dworshak bonds. To answer some of your questions from last month, where you want to remove as much risk as possible but also keep some flexibility there should something should arise where you need maximum flexibility.

The department furnished some information on revenues; we have used what we are calling the low bond revenues here. This is, essentially, the estimate of generation based upon the lowest level of what, water activity that occurs there.

Brian Patton: It would be the lowest annual generation based on the historical operation of Dworshak Reservoir.

Joe Jordan: And not lets over look the fact that this was a tough dry year last year if you are using that, that is very conservative isn't it, Brian?

Brian Patton: Yes sir. In fact this past year that was the lowest. There were about two other years that were within about a few dollars or so but this past year was the lowest.

Joe Jordan: And you are saying that we will have that kind of a year every year for the next 20 or so many years?

Jim Wrigley: Mr. Chairman, Members of the Board, the revenues that are based here are actually below the generation that occurred this past year. I think it last year it was 22….

Karl Dreher: No, this the last year, the very lowest.

Jim Wrigley: Okay, I miss read the other _____. This is the very lowest on record?

Karl Dreher: Yes.

Joe Jordan: So we are very conservative.

Jim Wrigley: We have tried to be conservative all the way through with everything here.

Terry Uhling: Just that out of curiosity, if that is the lowest, what is an average?

Brian Patton: An average is projected to be about 22.5gigawatt hours a year.

Terry Uhling: So, just turn that to gross revenues.

Hal Anderson: 30,000 bucks.

Terry Uhling: About a hundred grand on top.

Brian Patton: At our current power sales rate, yes.

Terry Uhling: About a 10 percent swing.

Brian Patton: Yes.

Terry Uhling: Thank you.

Jim Wigley: Mr. Chairman, do you see the column there, gross revenues, those are the lowest on record. The O&M costs, those were provided by the department and those are based on, I think, actual operations plus some __________ assumptions as to what the new charges are there. That produces a net revenue available for debt service, which is that third column on the right and you will notice that its starts in the mid-$700,000/$750,000 and then that increases up to almost a $1,004,000, out there by 2023.

In this structure, we move from the seven-day variable rate to a one-year variable rate. With the thought being that would be more in line with your budgeting activities and things that you do at Dworshak. The interest rate on that is about twice what the seven-day rate is but then that option 1, those current rates, you see what the debt service would be and then there is a surplus in terms of those revenues that are coverage ratio, so we are at roughly 1.9. Now in terms of sensitivity, option 2 is the stress steps and what we asked this model to do is how high of an interest rate can we go until this does not make sense from a refunding standpoint, for present value savings equal zero. That turns out to be an interest rate of about a little over 5.4 percent. And you can see the coverage ratio that is there. We are still in the one sixes. Now the complicated structure here would be a 1-year variable with a swap to a fixed rate. And that swap would either be for a 5-year time period or a 10-year time period, it just depends upon the price of the swaps and, you know, the current interest rate on the swap. That swap would be for all of it or it could be for a portion of it, it would be at the option of the Board. It would be your call. If you put the swap and fixed rate on all of it, that levitates your risk of interest rate increasing. If you put no swaps on it, you're completely subject to that interest rate increasing over time. If you look at an average on that one-year floater or variable rate that we have here, the average over the last 16/17 years is about 5.45 percent. So the stresses are well within the limits of where the average has been. If you put the swap or fixed the interest rate on a portion of it, then you have the full flexibility that you are afforded by the variable should some of the things, you know, that we have talked about in the past, that chip on concrete or something like that happened where you can move around you r debt service, your principal payments and that type of thing. So it is a little bit more of a complicated as a financing than your just true fixed rate that you have out there now. But the thought is that recognizing your need for stability and for risk aversion there is a need for some flexibility in your financial plan should a problem arise that goes beyond the assumptions that we have used here.

Joe Jordan: And lets be real pessimistic and specific and say the problem that arises is one of the main pipelines has be repaired. And whether we pay for the repair or not we will be out revenue while we are being repaired. I think that is probably the worst we can dream up and I think this flexibility you are talking about would enable us to survive that kind of thing better. Is that correct?

Jim Wrigley: Mr. Chairman, that is correct. Now, Mr. Anderson and I have discussed, you know, review of your insurances that you have on your project. The amount of your business interruption insurance, as to how that would work. And we want to bring that into this thinking before your final decision. And any other insurances that are there that come from a stoppage of your activities.

Joe Jordan: Another aspect of flexibility might be that we could pay down more than just what we do for the year and kind build up for a bad year or something like that. Is that true too?

Jim Wrigley: Mr. Chairman, that is one of the methods here. For instance, you have a very heavy water year and you generate a lot of revenues, those portions that you have in variable rates you can call and cancel those at that time and reduce your debt and reduce your debt service. And that would be a very good plan as things move forward. But you have the flexibility of doing that.

Terry Uhling: Jim, explain to me, lets assume we want to go variable with the right to go all fixed so we can swap it all. What are the terms and conditions of that, what time lines do we have to do to trigger that? I mean can every year do we have that choice or is there trigger points? I guess, explain to me the mechanics, if you understand them, for that swap to apply.

Jim Wrigley: Mr. Chairman, Mr. Uhling, essentially the swap could be put their for any period of time, we could either do it for a few days, to a few months, to a year, five years, although the way up to 2018 to the maturity. That becomes a decision of the Board. And I think it probably lies in you put the swap on some portion of it and what piece gives you the assurances there. Now, I guess if you keep maximum flexibility or almost flexibility by variable and you can go with a one-year swap, you get some protection there, but, you know, maybe a five-year protection would give you a little more comfort. So, basically, if you identify the parameters, there will be someone there to purchase that swap.

Jerry Rigby: Mr. Chairman, taking off on Mr. Uhling's question though, the further we allow ourselves that flexibility wouldn't that equate to a higher rate than we probably have to take in the market.

Jim Wrigley: Mr. Chairman, Mr. Rigby, if say, we don't put the swap on at the beginning, we allow that to go just fully forward for some period of time, the longer that goes the greater risk you are taking for interest rate increases. Conversely, if you were to put say the swap on for ten years that swap will have a higher interest rate than say that swap would for five years or that swap would have for one year. For instance, when I looked at these Friday the five-year was at a 5.20 and the ten- year was at a 5.70 and you got the one-year your probably in the very, very low 3 area. So it is flexibility versus risk. That is really the issue.

Claude Storer: Do we really need flexibility on this amount of money? I keep thinking if we have a good water year and we generate way more electricity, why couldn't we just set that money aside, maybe even on a higher interest rate than we are paying, and be better off at the end?

Jim Wrigley: Mr. Chairman, Members of the Board, you can do that and you can do that now.

Claude Storer: Why then would we need flexibility? I still don't quite understand this.

Jim Wrigley: Mr. Chairman, Members of the Board, it is kind of, you know, a matter of time. If you have got a few years to build up this fund you are probably fine, but if tomorrow that piece of concrete comes through, you are in deep trouble. And you just don't have time to react. So we need flexibility while your revenues are increasing to a point. Mr. Anderson and I have talked about you know maybe in this financing as a _________ with the bank, maybe there would be some type of a repair/replacement fund that is put there to do just what you are talking about, provide that very function. And at some certain point, if nothing has happened, you just use that to call a bunch of bonds. So there are things that you can do but you just haven't had time to do them yet on this project, it is so new.

Hal Anderson: Mr. Chairman, Mr. Storer, for example, if this indeed that scenario happened, that that pipe gave out, we would still have to make our debt service payments.

Joe Jordan: Don't we have an insurance policy?

Hal Anderson: We have some amount of insurance but it is questionable where we would have enough insurance to pay the entire debt service payment. We don't have enough revenues; we spent all of the money from our $750,000 because of cost overruns on the project. The Board needs to have some opportunity to generate some flexibility if indeed this happened. Some truck drove off, messed up the power plant, or the valves completely failed, or we had turbine that went south on us and we don't generate for a significant period of time, that we would have some opportunity there to defer a significant interest and principal payment until we could get back on our feet.

Bob Graham: In an earlier discussion that you and I had we were talking about the possible break down of that pipe. If that pipe were to break down, the two hatcheries would be in a lot more difficult position than we would be. As I understand it, we have somewhat of a built up reserve and can make some debt service payments with our reserve, but those hatcheries are going to have to resolve that pipe a lot quicker than we would have to, though we may be a partner in that we still have an awful lot assurance or insurance just from those two hatcheries being below those pipes.

Joe Jordan: You would thinks so.

Hal Anderson: The debt service reserve is basically only 25 percent, is that correct Jim, it is 125 percent.

Jim Wrigley: Yes, that is the coverage.

Bob Graham: My point is that the degree of insurance that we have against that may not be as necessary to us as it is to those two hatcheries.

Joe Jordan: We are speculating here now, but I suppose the hatcheries would pump out of the tail race and we can't very well pump out of the tail race and make money on our power plant.

Bob Graham: I doubt it that they would do that for a lengthy period of time.

_________: No, they couldn't do it for quality.

Brian Patton: Actually, neither hatchery, well the Dworshak hatchery pumps out of trail race for the primary supply, the Clearwater hatchery cannot because of some fish virus that is in the river, but is not in the reservoir, which is the reason why they have built the system in the first place, to bring the water to the Clearwater hatchery.

____________: But they would be fixing that in a hurry.

Brian Patton: Yep, they would have to do what the Dworshak does, which is install an ostentation disinfect ion unit, 5 million bucks. So, they would be fixing the pipeline in a hurry.

Joe Jordan: Another question Brian, what basis have we got to be worrying about lining this pipe. Now I realize the philosophies exceed what Amoron had designed for but how much concern to we have?

Brian Patton: We have some concern based on what we found when we went in and rehabbed the sleeve values. We found some construction that is not up to the standards that you would expect. Is the pipeline going to go out tomorrow? Probably not. Will it last 10 years? Probably. Could it go out next year? There is a chance, yes.

Joe Jordan: But the construction that we didn't think was up to standard wasn't that the sleeve valve construction?

Brian Patton: Yes, it was.

Joe Jordan: Do we have any reason to suspect the pipeline, other than that we found a little bit of cement in the valves.

Brian Patton: We have found some of the mortar lining.

Joe Jordan: We know it came from the pipe?

Brian Patton: Yes, we know it came from the pipe. And like you said we are right up on the upper limit of the manufacturer recommended velocities.

Joe Jordan: Okay. Mr. Uhling.

Terry Uhling: At what level in the, and I am not done with the calculations, at what level of interest rate do you want a variable when it goes. You know, we are at places that nobody has ever seen, so my guess is that the upside is a hell of a lot bigger that the down side on this one, from a variable rate. So at what level, first of all, how often can they change a variable? And at what level does the breaking even hit on our project? So lets assume that the service we have, at what level does that interest rate hit, is it 8 percent because we are locked at what 6.5 now on our…

Jim Wrigley: No, Mr. Chairman, your at 7.5, I think, is what you are at right now, 7.55 to 7.55.

Terry Uhling: Where does the fund come out of this game for us?

Jim Wrigley: Mr. Chairman, Mr. Uhling, this option 2, the stress rate, that is where we took the numbers for present value savings equals zero. And that worked in this example here because 5.4 ___ percent. So if you know the low present value savings equals zero then you have a cost, of _____________, you wouldn't want to go much farther than that.

____________: What would be the lowest interest rate we could inspect right now if we went from the very lowest interest rates right now? You said once I believe, but I don't remember.

Jim Wrigley: The resets this morning were in the 1.30 range. Those are the 7 days. The six months, when I looked at those last Thursday, those were 2.04, that is where those interest ran. We used in here for the saving calculation, we used 2.89. In the stress we used 5.41.

Joe Jordan: Mr. Wrigley, I tried to draw a picture of this, and I don't know if you can tell whether this reflects what you are saying. The cost debt will be something at the end of the job; you can add it up any way you want. And if we don't do anything, we will have paid 7 something.

Jim Wrigley: 7.34.

Joe Jordan: If we were to change over to option 1, flexible, variable, are we saying that it is 5 point something probably.

Jim Wrigley: The swap to a fixed we would be probably in the neighborhood of somewhere of 5.20/5.30, right around that range.

Joe Jordan: What is that option 2, for the fixed?

Jim Wrigley: That is option 2.

Joe Jordan: Okay, so that is option 2, at 5 percent. So now if I want to draw the adjustable rate, we don't really know where we will come out. We can't predict that, that is what you are talking about? In the worse case it could be higher than…it could be worse that what we have and in the best case it could be better than option 2, is that true? This is the range and it depends on…

Jim Wrigley: Mr. Chairman, Members of the Board, it could. But remember when you go from the variable and swap to the fixed, you are fixed for what ever that time period is. You say that is five years and your bonds are going out there 18 years, at the end of that 5-year period, you are looking at, if you are putting a swap on, you are looking at another 5 years or you are looking at 13 years to go to a fixed rate. You are moving that maturity date back all the time. You know it wouldn't make since to put a swap all the way out until 2018. You may as well go to a fixed at the very beginning but the theory here is you put in the amount of flexibility that you need and then use swap to fixed so that you can essentially stay at the shorter end of the yield as much as possible.

Joe Jordan: If I could just kind of bring Mr. Chamberlain up to date. We need to take action today on the refinancing of Dworshak and the two options are a variable rate versus a fixed rate.

Gary Chamberlain: What are we looking at the variable and on the fixed?

Joe Jordan: Mr. Wrigley maybe you could summarize real quickly.

Jim Wrigley: Yes. Mr. Chairman, Mr. Chamberlain, basically, that analysis was looking at a one-year variable rate. This analysis was at 2.89, swapping that out to a five-year or ten-year or something in between or is really _________

Hal Anderson: Mr. Wrigley, would you describe what swapping is? I think you understand it but I am sure everybody does.

Jim Wrigley: Yes, a swap is where, if the Board could do a swap now you have a 7.75 on your existing bonds. Now somewhere out there is someone that would be more than happy to swap you a variable rate for your fixed rate. Maybe you swapped your 7.75 for 2.5 and there is cash that changes hands there as you folks make the deal. What this envisions is you go out with the variable rate and either immediately or some period of time as you are watching interest rates, at that point and time that you would swap your variable interest rate for a fixed interest rate and that would have a specific time period. Maybe you say you sell these bonds in February, you wait around until November and in November you decide to swap for a 5-year fixed rate and then your bonds are at a fixed interest rates out for 5-years. And we put a stress rate in here for this analysis and that worked out about a 5.41 and that is where I define the stress rate as where present value savings goes to zero. If it goes below zero then it is a cost to the Board. So in reality we want to stay as far above zero as possible. And that is based upon the lowest revenues, which basically was this past year.

Jerry Rigby: Mr. Chairman, I concur with Terry that when you look at, though, using the option 2, the chances of having the true bearer bonds as you have drawn it up there has as much equal chance of going lower as it is higher. I don't believe it is there. I think your margin below the option 2 is significantly shorter than the margin above option 2 and that is what I keep coming back to that we are in a unique situation. I would redraw it that way and because of that I am obviously more inclined to say a variable option that stops, even though we may not get the bottom bottom, we saved it extremely high top.

Terry Uhling: Can I ask you, Jim, is there a way to put a stop gap number in there on which you have the right to swap all back _________? I know it just like my stock, what I am saying is can I go in there and say okay, I wanted a buck-fifty, I am selling. And so what I am wondering in this scenario if say you went pure variable, what ever you did, choose to do, are you assured the market will be there, which is my biggest question. So lets say it starts doing what we hope it doesn't do, it starts creeping up and all of a sudden it is about 6 percent/5 percent and we are all concerned that the upside or the cuttside doesn't look as good as the downside on this thing so we just want to lock it. Is the there assurance that if we wanted to pull the swap at that point that you could go out and trade whatever you had to lock yourself up or at that point the risk, I suppose, is whatever the fixed could be at that point, given 12 percent, 15 percent. If variables of 2.or less than 1 for seven-day almost, or 1 percent for seven-day and the fixed is at 6.5 or 7 and if we went out today, is this be best we can could on a fixed rate do you think? It would still be about that? What I am saying, is this the realistic number we are seeing here comparing what the variable rate might be to the fixed rate?

Jim Wrigley: This is a one-year swap and, or I mean a one-year rate variable and basically it is a five-year swap. And that pretty much of what is in the market now when the Fed meets the 30th here, you may be going to see some changes in that type of thing. There could be a mechanism put in place so that, you know, you reach a certain point, you know, the swap from variable to fixed occurs. From a financial standpoint that is very easy to do but now from the standpoint of the Board's activities, can they do that. It might be better to delegate that so that there is an affirmative action that takes place with your director and the chairman or something like this. So that it is not just truly automatic type of thing.

Terry Uhling: Here is my biggest concern as a Board member. Unlike if I make a bad decision on xyz and I can go back and say you know I'll go get a different set of revenue to cover that. In this case, the soul source of revenue from my perspective, from a state perspective, this trust perspective, is that hydropower project. If in fact, somehow we make debts from this or are not relatively conservative on this, I don't want to be back if front of the state saying now I have a debt service on that I cannot cover based up the income being generated of that project because all of a sudden I am at 10 percent or 11 percent because the variable risk didn't work out the way we wanted it to.

Joe Jordan: Terry, you were here when we talked about what revenue was factor into this were you? We got Brian to input the revenue for last year all the way down.

Terry Uhling: No, I was here for that.

Joe Jordan: You know that. Okay.

Terry Uhling: And I know that there is potentially a 10 percent upside on that if you used an average year for... But, again, I don't have a place, I don't feel comfortable, that I have another place in my pocket to go if, in fact, that all doesn't work out. And I am just trying to figure out to make sure that risk side of this, this place even feels comfortable taking risk. I like the idea of the variable; I'm just trying to figure out how to get there if I don't end up in a place where five years from now I am at an interest rate that won't cover my debt service.

__________: Where are we looking at on a straight fixed?

____________: 6

Joe Jordan: What was your question Mr. Chamerlain?

Confusing chat regarding rate.

Terry Uhling: What can we trade into for a straight fixed clear to 2018?

Hal Anderson: I thought Jim said about 5.5.

Joe Jordan: I have a question for you Mr. Wrigley. What was your question?

Terry Uhling: What can we lock in at for at for a fixed clear to 2018 _____?

Jim Wrigley: The taxables it will probably be 6.10, 6.20, somewhere in that rate. If we go out ___ years.

Terry Uhling: We are on a variable right now aren't we?

_______: No.

Terry Uhling: What is our fixed rate?

Jim Wrigley: 7.75. Mr. Chairman, Members of the Board, I was just talking with Mr. Skinner there, there maybe one other thing that we can maybe look at in the market and that is to do it as a fixed rate and then set it up a bond special maturity that is subject to call at any time. So use that as your adjustment for flexibility. I don't know how that would be priced. That is something to look at, but we could look at that.

Joe Jordan: How does that sound Mr. Uhling? Any better?

Terry Uhling: Yea, may be fine.

Joe Jordan: It might be the thing we are looking for.

Terry Uhling: I am really not trying to dissuade the conversation over the variable rate. I just don't think we, as a Board, can take the down side, that is where I am at. So when I feel that way then my conservative numbers go a lot higher, or my conservative bend goes a lot higher on me and that is what I am trying to figure out here. How do I take advantage of that resource, which I like, given dollars in there, allocating it to a different fund, but making sure I don't put myself in a interest rate fix that we can't cover debt service over the long term.

Rick Skinner: One other option and I don't know if Jim has considered this. You can also buy a rate cap, which is for designated periods of time: 3years, 5 years, the longer the time the more it costs you. But you can do that for 3 years and then evaluate it and do it again. And the idea is if you could buy assurance, basically. A lot of your extra revenues, hopefully, that could use. You could that way as well. I don't know if that is any better that what we have got here, frankly.

Jim Wrigley: A function very similar to the swap.

Joe Jordan: Let take a breath here and compare notes. Hal, what are we suppose to do today? Make the decision on the option or just get authority from the Board to let __________?

Hal Anderson: Everybody does have a resolution that wasn't included in your packet. There was some failure to communicate between myself and Rita. There is another issue here and it is not just the flexibility issue. If you go through this variable rate, we are going to be saving the Board about a $100,000 a year in debt service payment. That is money that can be used for a lot other things and I think it can be used for putting in and investing, it can be used to make available for loans, so it is not just a flexibility issue. You are going to save a considerable amount of money in interest if you go with this variable rate. And I think that from a standpoint of being good steward of the money with the Board's funds, you know you can make them some considerable revenues with this money.

____________: You mean everything stays right where it is at?

Hal Anderson: These are the folks that know the markets, and the bond markets are a little bit different. There are risks in just about everything that we do financially. I mean if we have the revenue projects ahead of us that got from our engineer in the past, what we ended up with last year in 2001 was less that any of those came up with so. The other thing is that swing actually, Terry, can be 20 percent. I think Brian also ran a high end. If we have a good generating year we can generate more than average.

Terry Uhling: I am not discounting either one of those factors. I want to take advantage of that. I want to take advantage of the savings and bank every upside that we get. I have got to figure out a way, for my own piece of mind, that the down side doesn't catch me because I have set in rooms where this exact _______ presentation has occurred. I have been there two years later and the pricing was in the dump and all those estimates that people put up on boards didn't look very good. And we good figure out how to get through that because there are different ways to deal with it. Here there is no other place to go, it is this project. And that is how come I am to make sure that we can take these risks reasonably but make sure that we don't end up in that spot. That is my concern.

Joe Jordan: I am not going to see if we can quantify here but the benefit from option 1 versus the do nothing alternative of sticking with our 7, whatever. As I understand it, if we go flexible under some conditions, we would save 32.4 percent.

Jim Wrigley: Mr. Chairman, that is the fully floating and it has no protection at all.

Joe Jordan: We should be able to identify pretty precisely the difference in the outcome between staying with what we have and a fixed rate shouldn't we? You have already told what that is.

Jim Wrigley: Mr. Chairman, you can. That option 2, that basically is your present value savings equal zero. I that point anything below there you have savings. Any interest below that 5.41 you have a savings.

Joe Jordan: Okay, can we put a dollar amount on the difference between the savings? You come up with a 32 percent savings for the option 1 but with 2, that one we should be able to predict pretty precisely.

Jim Wrigley: That option 2, that savings is zero there. Option 1, full floating it, that is the 30 percent.

Joe Jordan: So you are saying that option 2 is not an option. It doesn't help us any.

Jim Wrigley: No, that is the stress <u>test</u>. Anything that has an interest rate higher than that amount there, you probably don't want to do the refunding because it doesn't make any since to you, from a financial standpoint it is a precaution.

Joe Jordan: But we know that we can get money for less than 5 percent so we are going to benefit by going to <u>end</u> up with option two aren't we? With the fixed rate?

Jim Wrigley: Yes, any fixed rate below that option 2, 5.41, benefits the Board; if were to go above that 5.41, that is a cost to you.

Joe Jordan: __________ the rate that we will actually sell the new bonds.

Jim Wrigley: Yes.

Joe Jordan: But is your projection? What would it be if sold bonds today?

Jim Wrigley: It depends upon how we approach it; if it were a five-year swap it would be around a 5.20 now. I think we would probably want to investigate some caps there. If it is a three-swap, it will probably be in the mid-4 range. If it is a ten-year swap then it's a 5.70, that is above our 5.41 so we don't want to go there.

Bob Graham: Yes, Joe, the variable rates scare me in a low interest time. It would seem to me as though they were most beneficial, at least in the mortgage industry, than fixed rates were considerably higher and there was a large gap between variables and the fixed rates. But Hal makes a good point on the amount of money that is available if we went for the variable rates but it would seem to me as though the most important factor for our Board is the time and the energy that it takes the Board to react to some of these market conditions and, therefore, I would think that what we need to know next before we could make an intelligent decision would be what Terry's was referring to as the down sizing, if there could be some kind of a trigger in the mechanism to get us out of a variable rate quickly when rates started to raise before it was too late and it might be even more work looking into.

Joe Jordan: I understand Bob.

Bob Graham: It is that trigger that might be more important to us than anything that we are able to get out before we end up paying higher interest rates than get into the down sizing. And then we have to spend that $100,000 that Hal's talking about to hire some public relations firm.

Joe Jordan: Let me refocus our efforts here, just to make sure I understand what we need to do today. If we were to sign the resolution that I think we all have in front of us, it changes section 2 to determine it to be necessary and advisable that the Board agree to proceed with the issuance and sale of bonds. It doesn't specify option 1 and 2 and then section 5, Hal, as I understand it is simply specifying how the Board will do that, handing the authority to the officers of the financial advisory bond council. Is that what we do if we sign this today.

Hal Anderson: That is correct, Mr. Chairman. It doesn't obligate the Board to a variable rate, fixed rate, no rate.

Joe Jordan: And it doesn't give that authority to the officers either as I see it.

Hal Anderson: That is correct. All it does, is at this point and time, it provides us the opportunity to move forward and come together and finalize the arrangements for this deal with the input from the officers and the department and such that before the actual bond issue could occur, that is going to take another resolution of the Board.

Joe Jordan: Okay. Just one question, Mr. Wrigley, when we decided we needed this meeting, I think, we talked a little maybe that interest rates are going to jump up here pretty fast. I don't know whether things are changed or not.

Hal Anderson: That is why we are having this meeting, Mr. Chairman.

Joe Jordan: I don't know whether things have changed or not, but are you uncomfortable if we don't make any decision today other than just to tell you to keep going.

Jim Wrigley: Mr. Chairman, I have kind of a sense of flexibility versus risk, that would give us direction. I would like to be able to tell you what is going on with interest rates but three weeks ago I was on a conference call where the bank economist and a bunch of other economists were all saying the interest rates were going rise. A week ago I was on the same conference call, the same group was saying the interest rates were going to go down. So it makes no sense.

Jerry Rigby: Mr. Chairman, Mr. Wrigley, I guess my only question would be when would the timing that you see most for us to make that actual decision? Giving you, you know, kind of where we are at right now, I think you have kind of felt the feeling of the Board. My concern is when would you suggest the timing, the most appropriate to say this is the way to say this is where we are going.

Jim Wrigley: We want to catch the low interest rates, so as quickly as we can move the better. I agree at some point and time they are going to move on us. Maybe best if we take a little more time and we look to see what we could do with maybe a fixed rate with some type of a call that would allow you to get in at that point and if something happens and puts some flexibility in there.

Jerry Rigby: But I guess question is wouldn't you need today to most quickly get to the position where you would need the final resolution from us.

Jerry Rigby: I think, basically, just the thought of no risk at all or a little bit of risk or, you know, __________ by the door, lets go all the way.

Joe Jordan: I will get you a flavor of the Board here in a minute. Mr. Uhling.

Terry Uhling: I was thinking Jerry's personal guarantee would be a good start. That and a couple of bucks. It think I just wanted to make sure, Jim, I think that you have answered this question. The 5.41, and obviously 5.5 for simplicity, is the great even. If we wanted to refinance it, that is what we would have to average over the life of the loan in order to just break even.

Jim Wrigley: Yes.

Terry Uhling: Okay, if we looked at a couple different tools like the swap tools, could you provide just a quick summary of what those interest rates would look like, say if you wanted a five-year, a ten-year, because I understand that the variable you presented would be on a one-year variable, right now it would be about 2.8.

Jim Wrigley: Right.

Terry Uhling: So if we added one of the other tools in there that would give us more flexibility would change that rate…

Jim Wrigley: Mr. Chairman, if were to say put the variable rate at 2.8 swap it in this market to a fixed rate for five years, 5.2. If we were to swap for 10 years then that would be a 5.7 in this market. So that would exceed our breakeven point. Now, there maybe some happy point in there, you know, in between, maybe an eight year or something like this that would be helpful.

Terry Uhling: But there is still another ten years that you are going to have to do something with.

Jim Wrigley: Yes. But at that time we are back doing something for 10-year money rather than doing something up front for 20-year money. The longer we go out the more expensive that is.

Terry Uhling: That is right.

Gary Chamberlain: Is there any reason why we can't look at the situation a year from now if we go with the one-year variables? A year from now we look at it again and we decide we are comfortable we go with another one-year variable?

Jim Wrigley: Mr. Chairman, Mr. Chamberlain, you can do that. It is very realistic to be able to that.

___________: But you are going to pay those fees?

Jim Wrigley: No, on the swap all you do is, basically, you just buy the swap from someone, there is not additional issuance cost and things like this. That is all captured in the interest rate on that swap at the time that the deal was made.

Gary Chamberlain: But the risk is in that year time. Lets say rates do bump a half percent or whatever, when we go back out to try to get that swap, we will probably be busting across this breakeven point to where I kind of think in five years, 5.2, I'm getting pretty close to where I can smell breakeven already, right at a five-year swap.

Jim Wrigley: The swap rates and interest rates, there is different movement there, it is really hard to tell. The very easiest is that fixed rate right at the very beginning.

Joe Jordan: I think that we may have just about worn this thing out for today. Lets not vote, not have any names, but how many people are more comfortable with the fixed rate? Lets just see how the Board feels right now?

__________: You are going to ask comfortable?

Joe Jordan: Yes, definitely

<u>Terry Uhling</u>: You are more comfortable with fixed rate, but I am not allergic to gambling either just a little bit.

Joe Jordan: I will reword my question. Which way would you vote today if you voted?

<u>Terry Uhling</u>: A very conservative swap.

Joe Jordan; How many go fixed?

__________: If were to vote today.

Joe Jordan: Yes.

____________: I think I would.

Joe Jordan: I am only counting three. Does that mean the rest of you would prefer to gamble?

___________: Mr. Chairman, I don't think that is quite true.

<u>Terry Uhling</u>: My suggestion would be a very conservative swap and just so we have at least a little opportunity, but boy, not anywhere near even the five-year range doesn't work. Maybe it is the one-year swap, I guess.

Joe Jordan: Mr. Anderson, you have been studying this thing, I think you would gamble. You would go with a combination, wouldn't you? You would go for the variable?

Hal Anderson: Variable, one-year swap.

Joe Jordan: Well, Mr. Wrigley, that is the feeling of the Board. Anything else? Lets move on to the one-year

__________: You are probably mixing financial instruments that are not available… There probably is no such thing as a reasonable one-year swap.

Hal Anderson: Three-year swap possibly.

____________: So, I am like Jim.

Hal Anderson: I understand, and I said as close as you can to it.

Joe Jordan: We are divided and none of us are real sure, I think that summarizes what I hear.

Jerry Rigby: Lets go forth and do great things.

_____________: There is only one way for interest to got right now, I feel like, and that is up.

Hal Anderson: Well, I think there is debate on that.

____________: It could go study, I mean, it may not go up but it can't go down much more.

Hal Anderson: That is what they said last month.

Karl Dreher: That is pre-ENRON

Joe Jordan: Bob, which way is it going, Bob.

__________: That is Leonard.

Leonard Beck: Mr. Beck, I just have a question on the three-year swap. That means that we are locked in at a variable rate for three years and then at the end of the three years we have the option to do the swap, is that correct?

Jim Wrigley: No, Mr. Chairman, Mr. Beck, what that means is if you trade your variable rate for a fixed rate for three years and then at the end of the three years your fixed rate reverts back to the variable rate. And at that point you can put another swap on or you can convert it to fixed and you can do what you want to do or what you feel that you need to do.

Leonard Beck: We have a fixed now?

Jim Wrigley: Yes, you can go to fixed rate now.

Leonard Beck: We have a fixed?

Jim Wrigley: You do have a fixed rate now.

Joe Jordan: May I say a couple things for sure. We appreciate the effort you have gone to give us some options. We are not sure that we can advise you as to which one we favor.

__________: Just one more. Just one more.

Gary Chamberlain: It was in the three-year swap, in that three-year period we start getting uncomfortable, can we go ahead and fix it somewhere in the year and half or two years or do we have to stay the full three years?

Jim Wrigley: Mr. Chairman, Mr. Chamberlain, though you can get out of the swap, depending on were interest rates are at, you may receive cash from the swap divider or may have to pay him some cash. If you can get out of it, there could be a cost associated with that.

Gary Chamberlain: You can make that swap coincide with changing of the Board members.

Hal Anderson: Which Board members?

Joe Jordan: Any further questions? Mr. Wyatt.

Dick Wyatt: I would like to call for the motion to move ahead.

Joe Jordan: There is a motion to adopt the resolution before you. Is there a second?

Terry Uhling: I will seconded it.

Joe Jordan: Is there any discussion? Roll call vote:

Roll Call Vote: Beck - Aye; Chamberlain – Aye, Graham – Aye, Rigby – Aye, Storer –Aye, Uhling – Aye, Wyatt –Aye, and Jordan – Aye. 8 Ayes, 0 Nays. *Motion carried.*

Joe Jordan: Mr. Anderson: Where are we? I would like to thank both of you, Mr. Wrigley, I would like to thank both of you for coming in.

Agenda Item No. 5, The Sugarloaf Aquifer Recharge Project

Hal Anderson: Mr. Chairman, we are currently at agenda item no. 5, the Sugarloaf Aquifer Recharge Project. You have in your Board folder a memo from Mr. Patton and letter from Mr. Diehl, and a resolution on the back of the memo from Mr. Patton. The resolution in essences authorizes the director to move ahead with the contractual arrangement with the North Side Canal Company for the construction of the Sugarloaf Aquifer Recharge Project. To refresh your memory, at the last legislative session there was $60,000 allocated to the Water Resource Board, specifically mentioned in the appropriation to the Department, for the construction of the Sugarloaf Aquifer Recharge Project on the North Side Canal. Since that time, the Department has requested the funds from the Treasurer's Office. We have those funds in place and this resolution would move this.

_________: I move to approve the resolution at it is.

__________: Seconded, wait a second, we need some discussion.

Joe Jordan: I have a motion and seconded and discussion: Go ahead Claude.

Claude Storer: You know, there has been some discussion that I have heard in the past about the land that they were going to use this on belonged to somebody else, did they get the deed cleared up for that, whatever happened to that?

Hal Anderson: That is a good question, Mr. Storer, your right. Mr. Blew is here; he is our recharge coordinator by the way.

David Blew: Ted Diehl has been working with the current landowner, Mr. O'Gara and his attorney and we received last week a grant of the easement that will be used. Ted seems to be reasonably happy with it. It was granted by Mr. O'Gara's attorney and I would say that probably within the next week that agreement will be in place.

Claude Storer: Now this is just an easement to run the water onto this land?

David Blew: It is the easement to run the water on the land, to place a check structure and an easement to the long-term well that is also on the same property.

Claude Storer: Now how long will this easement be for? Is it for the long-term or just a tryout period?

David Blew: It is, as our attorney put it, is in perpetuity. Currently, it has a sixty-day written notification clause. And I told Mr. Diehl that he needed to up that to 90 to 120 days.

__________: Or longer. if possible.

Joe Jordan: I think probably longer.

David Blew: I talked with our attorney, John Homan, and he said this is the best we could hope for.

Claude Storer: We put in this structure and in 120 days he cancels the right of way.

David Blew: I think that there is an easement already across that piece of property. I think it was used historically as a spill. And there is actually two recharge ponds at this site. Another one being further on down on a property owner who though he owned the first property. And my understanding is that we can probably still discharge water through the canal down to that recharge site.

Claude Storer: The main thing is if we are going to put out $60,000, we ought to have some certainty that we are going to be able to continue to do that and that kind of bothers me.

David Blew: Mr. Chairman, Mr. Storer, you know as Mr. Homan stated this is the best we can hope for considering the mistakes that were made in the past.

Claude Storer: Sixty days won't even give them a chance to recharge the spring.

David Blew: I am not sure how to answer your question other than that is what Mr. O'Gara has proposed that he is willing to do. My understanding in talking with Mr. Diehl, he feels pretty comfortable working Mr. O'Gara and that he doesn't see a big problem. Mr. O'Gara bought the property has a place to hunt. So this should not be a big interference to his ability to hunt pheasants.

Joe Jordan: I have one question for either Dave Blew or Brian. Do you know how Ted Diehl intends to account for the <u>slouse</u> if he does this work with his own forces? Does he have some kind of hourly rates for people and equipment, so that when he sends in the monthly draw, so to speak, is there a basis for it?

Brian Patton: Yes, in fact, he has provided me with a cost estimate for doing the work already. His cost estimate is right at $54,500.

Joe Jordan: Okay, on each month, I presume, he will tell what he spent in order to draw.

Brian Patton: Yes, we get to work out those contractual details, but that is the idea. And then we will keep a 10 percent retainage until the project is done.

Joe Jordan: Okay, we had a motion the table. We have another question. Go ahead.

Claude Storer: Do we then release this $60,000 knowing that there is a 60- or 120-day period that he could refuse to let us run that water?

Joe Jordan: I don't know the answer to that. Hal?

Hal Anderson: Mr. Chairman, Mr. Storer, this is money that was authorized.

Claude Storer: It was authorized for this project, I expect they authorized it with the fact that it going to be run there. And we don't have certainty that the water is going to be able to be run there, even come spring.

Joe Jordan: And why is that again, Claude, tell me.

Claude Storer: Tell what?

Joe Jordan: Why don't we know? Because of the availability of water?

Claude Storer: No, he is putting in the sixty-day. He can call this lease in in sixty days. Forget the lease.

Bob Graham: The __________ letter from North Side Canal Company said that they would begin construction as soon as a certain right of way issues were resolved. Would we not want to modify that resolution so that that money was made available after the rights of way were resolved and then would that not answer Claude's problem there.

Joe Jordan: My understanding is that we disburse this money when we see approved invoices for labor and equipment. And we don't do that, there won't be any construction until rights of way and such things are cleared away.

Dick Wyatt: And Claude is right, we have a perpetuity agreement but in the perpetuity agreement the other guy has the right to cancel on sixty-day notice at anytime forever. I mean really the two are kind of ridiculous. I can see a one-year, two-year, three-year type clause on it but if this is the best we could get because of something that happened before.

Joe Jordan: Other questions?

_________: I am real uncomfortable with it. I have been in a couple of these things were you think you have got it forever and all of sudden somebody steps up says, you know, they sell it and the next owner comes along and says I don't want it anymore. I don't want that water on there, I am going to do something else with this land. I hate to spend the State's money, $60,000, to do a project and then wind up a year or two down the road and find that things defunct, we can no longer run water across it.

Hal Anderson: Mr. Chairman, Members of the Board, I think those all good comments. I would, just for additional information, there is considerable amount of interest in providing some opportunity for recharge. This is the largest site on the North Side system and I think the Board would be significantly criticized if they didn't move forward in providing the funds that were authorized by the Legislature to build the project. The choice is to not and turn it back to the State, but I think there is potential that there would be some significant backlash. That is my only point.

Jerry Rigby: Mr. Chairman. Hal, until our February meeting, will there be expenditures of work that would require some monies?

Hal Anderson: Mr. Patton, do you have something to add there.

Brian Patton: North Side would sure like to get busy on this.

Jerry Rigby: My suggestion was going to be if they wasn't, have Ted Diehl here at our next meeting.

Joe Jordan: Ted Diehl is here now.

Jerry Rigby: I now he is.

Joe Jordan: His letter indicates that ASAP.

Jerry Rigby: Why the sixty-days? That is the bottom line. Why is this guy putting a sixty-day limit on something that is going for perpetuity? I mean, you only do water on it once a year, is that right.

_______________: No, no, there could be several times a year in a water year.

Jerry Rigby: That is what I mean, so it is an annual thing with snow and rainfall. Why would he put sixty-days limit on it, that doesn't even make good common sense?

Hal Anderson: Do you have question for Mr. Blew, Mr. Storer?

Claude Storer: I do, I assumed the agreements were in place. I haven't even seen this agreement.

David Blew: Mr. Chairman, Mr. Storer, I understand and sympathize with you but, again, this is something we don't have a whole lot of control over at this point. This is what Mr. O'Gara's attorney put in the agreement. Ted agrees that he would like to see a longer notice period put into the easement, given the situation that we drilled a well on somebody else's property, this is the best that we can hope for in terms of the agreement. We are really kind of at his mercy in some respects.

Claude Storer: You mean drilled a monitoring well on his property?

David Blew: Yes.

Joe Jordan: What if we take no action on this at this time and they take their chances in February? Will we know any more? Brian?

Brian Patton: The concern, Mr. Chairman, is if they wait until that February meeting, it is February what, 20 –30?

Joe Jordan: Middle of the month.

Brian Patton: It is still put them into a window were it is going to be too tight, or almost possibley too tight to get the project built before they start running irrigation water.

Claude Storer: Didn't the Board participate in the well or some way or another in that. They came to us for something on it. Maybe that was the Stallworthy well.

Hal Anderson: Mr. Chairman, Mr. Storer. we participated in all the monitoring wells because the Board was the one that signed the agreement for the lease. There was a problem in the, it is a long story. When Ted went out with our managed recharge coordinator at the time and pointed out the property line where they thought the property line was before the monitoring well was drilled. It appears that Mr. Diehl was wrong on the property line and, in fact, when the drilling rig went out there in the place, it was pointed out to them that there was not enough research done as to the property counters.

_________: So the well is not on this guy's property?

Hal Anderson: It is on this guy's property.

__________: Okay, it is on the guy's property. I knew got involved in this someway.

Hal Anderson: That is how we got involved.

Joe Jordan: Could anybody answer this, what if we authorize the release of the funds and your worst fears come true, then what happens?

______________: We are out 60 grand.

______________: The facility is setting there and you can't get any water out.

______________: We are out 60 grand is all.

Joe Jordan: Or he negotiates a higher …

___________: Or he says I need $10,000 a day for it to _________.

Joe Jordan: I think we have heard the concerns, are you ready for a vote? Mr. Beck.

Leonard Beck: I have just got a question, Mr. Diehl's letter is dated December 20th, and it states that we anticipates that the other waivers interest will be resolved in a few weeks, it has been a month since he sent the letter. Has he resolved the rights-of –way and if he hasn't I don't see that your obligated to move any faster that what he is able move.

Joe Jordan: Any other discussion? Lets vote the resolution. The resolution is essentially to approve the release of the $60,000 for the Sugarloaf Aquifer Recharge Project.

Hal Anderson: Mr. Chairman, if you look at the resolution, really what it does is authorizes the Director to inter into an agreement/contract with North Side Canal Company for the construction of the facility.

Joe Jordan: I stand corrected. Roll call vote:

Rita: Mr. Beck?

Leonard Beck: I am going to have to have what Hal just mentioned explained a little further.

Joe Jordan: Go ahead Mr. Anderson.

Hal Anderson: That is right, you don't have a copy of the resolution do you, Mr. Beck?

Leonard Beck: But I do.

Hal Anderson: But I think you have an older version.

Leonard Beck: I have got one dated the 22nd of January, 2002, and I understand your comment about it provides authority for the Director, so are you telling us then that our concern in regards to the right-of-way will go away because that will be involved in the Director with the contract?

Hal Anderson: I am not saying that Mr. Beck. I was just trying to characterize what indeed the resolution does. Let me read it just in case you might have a different version, because there was a change made, two changes made. It is on the “Now therefore be it resolved that the Board authorizes the Director of the Idaho Department of Water Resources to enter into contracts with the North Side Canal Company for the construction of the Sugarloaf Aquifer Recharge Project using an amount not to exceed $60,000 from the Water Management Account.”

Leonard Beck: That differs from the one we have got in the book.

Hal Anderson: That was my point.

Leonard Beck: I wonder if we couldn’t even have him here to stipulate the rights-of –way are approved or subject to approval of the Director, so once again that we something resolved that we are not expending money, granted that has been authorized the legislators, but I think they expect us to be held to some degree of accountability that we are not just funding something when are the resolves aren’t taken care of.

Joe Jordan: I have to rule on this, we are preceeding with the vote but let me add this--contracts to be entered into are not finalized yet. I think the problem on the lease can be, this may be passing the buck, but that contract or contracts can take into account any problem like that.

Leonard Beck: That is what I was getting at. I would vote that we preceede with the resolution, I vote yes, based upon that the contracts are firmed up.

_________: But does not authorize the release of the $60,000.

Joe Jordan: That is correct, I was mistaken, it does not authorize release of the $60,000. Are we clear on what we are voting on?

Brian Patton: Mr. Chairman, I just did want to state that the draft contract that we are working does require North Side to either provide the lands or acquire the lands or the right to use the lands for the project.

Joe Jordan: That would be a condition of the contract.

Leonard Beck: If that is the condition of the contract, I don’t have any problem with it.

Joe Jordan: I think this clarifies the resolution and we have a vote of yes from the member.

Roll Call Vote: Beck - Aye; Chamberlain – Aye, Graham – Aye, Rigby – Aye, Storer – (based upon that understanding) Aye, Uhling – Aye, Wyatt –Aye, and Jordan – Aye. 8 Ayes, 0 Nays. *Motion carried*.

Joe Jordan: I wish we had thought this out a little clear, but I am glad up spoke up __________. Are we ready for the last item:

Agenda Item 6, Other Items Board Members Wish to Present

Hal Anderson: This shouldn't take very long, it is just a comma.

Bill Graham: Mr. Chairman, Board Members, it was called to our attention that a comma was inadvertently left out of activities that were allowed with terms and conditions for those rivers protected as recreational in your Little Salmon River Basin Comprehensive State Water Plan. The draft legislation that was provided to Senator Noh along with the copy of the plan you adopted contained the comma and because that had the comma in it and the plan did not when Katherine Garrison, an attorney over with Legislative Service, that was preparing the bill noticed the discrepancy. She contacted me and in discussing it, it became clear that that comma being in or not being in significantly changed was being allowed under alternations of the stream channel and the she felt the best way to resolve this was that if the comma, in fact, belonged there, to insert the comma, so we have inserted the comma, it is in the Recreational Rivers, it is in red, it is down under item 2, Alterations of the Stream Channel. And you can see, or you can go through and just see how that would read, with or without the comma. Without the comma, that would read: "alterations of the stream channel for protection of maintenance of private property or flood control." So that indicates that it would only allow alterations to private property for flood control. If you add the comma in and then it reads: "alterations of the stream channel for protection and maintenance of private property, for flood control, for public recreation facilities," etc. So you can see the importance of the comma. I have discussed this Chairman Jordan, and we concluded that in fact in earlier drafts the comma, I believe, was in there. So it was strictly a clerical error.

Joe Jordan: I can assure the Board the comma intended to be in.

_____________: Motion to approve the resolution as presented.

_____________: Second.

Joe Jordan: Moved and second that we request a resolution that presented a _________. Those in favor say Aye. Opposed say ___.

__________: Let the records show I abstained.

__________: Why

Joe Jordan: Motion is carried.

Voice Vote: __ Ayes, ___ Nays, 1 Abstained. *Motion Carried*.

__________: The good news Bob is that we completed our five-year plan review the Salmon River Basin at the same time.

Joe Jordan: Do does the Board have any thing they wish to discuss at this time.

__________: I vote that we adjourn.

I have one thing that has been bugging me, Jerry knows about it. It seems that the Department is trying screw all of these water rights down as tight as they can. Now, I don't know if the Board can do anything about it, whether it should even be discussed today. But I think through the adjudication some water rights are being cinched down when they liberal to keep that water in Idaho. It is bothering me quite a lot.

Joe Jordan: You all got an invitation for input on our strategic plan. Your input covered that and I didn't get any from anybody else. And that is not the most important thing we have to do.

__________: Well, I know it is not, but it is pretty important.

Joe Jordan: I don't mean your point is not important. Everybody agrees the strategic plan can be put off and we did put it off, but we understand your point. I don't know whether you want to discuss if further now.

____________: I don't know as we need to, but I am concerned about it.

____________: That is funny, because in my area they are actually being a little too liberal. We heard of the Hubble analysis. We have a person that has a water right that should be about 3 inches per acre. His water right reads 4.1 inches. It is transferred into our canal company with 4.1 inches and he says no you are going to want to put that 3 because at 4.1 allowes for conveyance loss through the canal. And he is maintaining, no, I am entitled to 4.1 inches at my headgate, so we are having a problem with that.

__________: But has the adjudication addressed it.

__________: We will wait until adjudication addresses it.

__________: I think when adjudication addresses it you will be in for a big surprise.

Joe Jordan: Motion to adjourn, I mean the meeting.