MEETING OF THE FINANCE COMMITTEE

October 21, 2002

A meeting of the Finance Committee was held at the Murdock Administration Center, Administration Conference Room, Room 536, in Port Charlotte, Florida. The following members were present: Chairman Sara Devos, Commissioner DeBoer, Interim County Administrator Pamela D. Brangaccio, Clerk of the Circuit Court Barbara T. Scott, County Attorney Reneé Francis Lee, Chief Deputy Board Services Tommy Q. White, and Deputy Clerk Diane J. Nice.

1. Call to Order

Chairman Devos *called the meeting to order at* ***2:30 P.M.***

2. Introductions

Member White *introduced Finance Committee Members and then introduced the other attendees: Financial Advisors Gary E. Akers, Senior Vice President, of Stifel, Nicholaus & Co., Inc., Hanifen, Imhoff Division with Jeff Lindquist, Director of Research and Special Products, of the Denver Office; Bond Counsel Tom Giblin and Stephen Miller of Nabors, Giblin et al.; Assistant County Administrator Richard E. Howell; and Utilities Fiscal Manager Laurie Case.*

Member White *distributed the April 25, 2001 minutes for review and approval.* ***Chairman Devos*** *requested a motion to approve.* ***MEMBER SCOTT MOVED FOR APPROVAL OF THE APRIL 25, 2001 MINUTES, SECONDED BY MEMBER LEE AND DECLARED UNANIMOUS.***

3. CCU Utility System Refunding Revenue Bonds, Series 1993

- ***Financial Opportunities***

Member White *explained the purpose of the meeting is to discuss refinancing options of the 1993 Series bonds that have a call date in October 2003; pointed out the County has previously taken advantage of lower interest rates; advised Kevin Schuyler of Raymond James & Associates, Senior Underwriter, has suggested refinancing the bonds to achieve an economic benefit for ratepayers. Gary E. Akers, Senior Vice President, of Stifel,* *Nicholaus & Co., Inc., Hanifen, Imhoff Division, presented the Financial Opportunities report by summarizing the Executive Summary on page 2, that the 1993 Series bonds refunded all of the Series 1991 bonds; since tax laws prohibit refinancing bonds more than one time prior to the call date, the 1993 bonds may not be refinanced in advance; and enumerated the options: Current Refunding within 90 days in advance of the call date of October 1, 2003 i.e. July 3, 2003; a Forward Refunding that would allow the sale of the bonds when the documents are complete and the underwriter makes a commitment to close on the bond issue in July 2003 that involves the payment of a premium and the uncertainty of the interest rates at that time versus today's market; an Interest Rate Swap Option (Swaption) that would allow the sale of bonds to a counter party who would pay an up-front premium for which the counter party may require the County to issue variable rate bonds in July 2003 that would be swapped for a fixed rate. Mr. Akers reported the Summary of Alternatives reflect the following savings to the County:*

Series 1993 Bonds	Current Refunding	Forward Refunding	BMA Euro-Swaption
09/04/02			
Provider Savings	$5.09 m	$3.00 m	$3.75 m
Net Present Value %	5.90%	3.47%	4.30%
09/25/02			
Provider Savings	$6.78 m	$5.40 m	$5.70 m
Net Present Value %	7.85%	6.25%	6.60%
10/17/02			
Provider Savings	$5.34 m	$3.06 m	$3.55 m
Net Present Value %	6.19%	3.55%	4.11%
Series 1996 Bonds			
10/17/02			
Provider Savings			$725,000
Net Present Value %			2.14%

Jeff Lindquist, Director of Research and Special Products, of Stifel, Nicolaus & Co., Inc., Hanifen Imhoff Division's Denver Office, explained the risks due to the volatility of interest *rates and uncertainty of interest rates in July 2003 relative to the three options; and summarized the steps in the Interest Rate Swaption:*

1. *The Provider purchases the right to enter into a swap on the call date of the 1993 bonds.*
2. *The Provider pays a "savings" amount representing the present value savings plus the option values.*
3. *The refunding bond issue will provide funds sufficient to call the 1993 bonds and the Provider will pay the call premium.*
4. *The County will pay all issuance costs on the call date including the liquidity and re-marketing fees.*
5. *If the Provider does not exercise the option, the County keeps the entire payment and retains the right to refund the 1993 bonds in the future.*

Mr. Lindquist stated the County will be paying off the existing 1993 bonds and explained the Provider will be paying a variable rate based upon the Bond Market Association (BMA) Index and the County will agree to pay a fixed rate back to the Provider equal to the current rate on the 1993 bonds. Mr. Lindquist reported the County would continue to pay the same fixed rate on the 1993 bonds and receive the up-front premium of $3.5 million - $4 million. Mr. Lindquist pointed out the Provider will pay the call premium, therefore, these costs will not reduce the up-front premium although the County will pay liquidity costs that will be factored in. Mr. Lindquist and ***Member White*** *agreed it would be extremely unlikely the Provider would not exercise the option but if rates significantly increase, the Provider would probably allow the option to expire. Mr. Lindquist reiterated if the swaption is not exercised, the County would retain the up-front premium, continue to pay existing bondholders, and wait until a current refunding can be done. Mr. Lindquist reported the risks associated with trading in the open market based upon the County's credit rating versus the BMA Index. Mr. Lindquist enumerated the risks between the swaption premium payment and the exercise date of October 2003 i.e. the Credit Risk attributed to the County's credit rating being downgraded that appears very unlikely which would cause the variable rate refunding bonds to trade at a wider spread relative to the BMA Index; an Issuance Risk would result if the County's refunding bonds are not marketable due to financial market conditions or a change in the Federal tax laws; and the Termination Risk would* *occur if the County needs to redeem bonds early and owe the difference between the strike rate and the current market swap rate plus a portion of the up-front payment. Mr. Lindquist explained the risks after swap execution including the Counter Party Risk caused by the Provider being unable to meet its BMA based payment obligation during the swap term and exposing the County to a potentially unfavorable interest rate environment; the Liquidity Risk, a component of a variable rate bond, would allow a specific party to make payment if the County would not be able to comply with the obligation; the Re-marketing Risk would result if the re-marketing fee must be repriced at a higher level prior to the final term of the swap; Early Termination Risk wherein the County would probably have to make a payment if the option is terminated prior to the swap; and the Credit Risk.* ***Member White*** *questioned the inclusion of termination clauses in the agreement. Mr. Lindquist responded affirmatively, pointed out market conditions that would cause the County to terminate the agreement may increase the termination payment, and advised he has not seen a Provider terminate after paying the up-front premium. Mr. Lindquist advised the risks may be mitigated by the County, if the swaption is exercised, under the Counter Park Risk, by utilizing a high rated counter party, including collateral provisions in the event counter party ratings fall, and assigning the swaption to another provider if the counter party ratings fall before a certain level; the Liquidity Risk, wherein the counter party agrees to set a liquidity price or obtain bond insurance for the term of the bonds; the Re-marketing Risk may be mitigated by the underwriters setting a specific remarketing rate for the swaption term; establishing a Swap Contingency Fund from some of up-front premium to offset potential payment for Termination; and the County may obtain bond insurance for the term of the bonds to reduce the Credit Risk. Mr. Lindquist opined the risks are very low and the County has three options: to wait and do a current refunding next year, a forward refunding now, or a cash payment under swaption. Mr. Lindquist projected rates are low now and will increase by the time of the current refunding; the forward refunding would allow the rate to be locked in but the premium would be fairly low based upon today's rate; the swaption would allow today's low rate to be locked in and for the County to receive an up-front cash payment but the County must be prepared to issue variable rate refunding bonds if the Provider exercises the swaption. Mr. Lindquist reviewed the Bond Buyer Revenue Bond Index (page 12) from May 1990 to October*

2002 that reflects the current tax exempt fixed rates to be at their lowest during that time period and the BMA Index from October 1992 to October 2002 that shows the five-year average at 3.07% and the 10-year average rate at 3.12%. Mr. Akers commented on the Municipal Market Data published on October 18, September 26, September 5, and January 4, 2002 that reflect preceding date rates. ***Member Lee*** *requested confirmation that the County would receive $3.5 m including fees and costs. Mr. Akers stated the payment to the County would be higher than $3.5 m and the difference would cover the costs associated with issuing variable rate bonds.* ***Member White*** *pointed out that amount was over $5 m a few weeks ago and suggested the Committee make a recommendation, as has been done previously, for the Board to approve going forward based upon a pre-determined minimum gain.* ***Member Lee*** *requested the purpose of the refunding.* ***Member White*** *explained the lower rates would provide financial gain. Laurie Case, Utilities Fiscal Manager, stated the outstanding bonds are approximately $86.3 m. Richard E. Howell, Assistant County Administrator, reported the County need not call the bonds on the call date.* ***Member White*** *stated if the rates increase it would not be economically preferred to call the bonds in October 2003. Mr. Lindquist explained the bonds may be called any time after the October 2003 call date.* ***Member Lee*** *requested the impact of the refunding on future projects. Ms. Case commented on the Peace River plant capacity debt, pointed out Mr. Akers is Financial Advisor for the Peace River Authority, and he will be evaluating viable options based upon rate payer benefits.* ***Member White*** *reiterated the benefit to the County receiving the up-front premium and explained the feasibility of moving forward with the transaction on an expedited basis once parameters are approved by the Board.* ***Member Brangaccio*** *expressed reluctance on proceeding with the Euro-Swaption. Mr. Lindquist explained the Euro-Swaption provides for a one-time call date option whereas the American Swaption allows the Provider to exercise the option on or after the call date. Mr. Akers stated this is the most conservative option and commented on the potential for significant changes in the spreads between tax exempt and BMA rates.* ***Member Lee*** *questioned if the Committee's recommendation is for the Euro-Swaption.* ***Member White*** *opined the risks are very low and reiterated the County would receive an up-front cash premium of $3 m to $4 m.* ***Consensus of the Members to proceed with the Euro-Swaption including Member Brangaccio who concurred based upon explanations provided by Messrs. Lindquist and Akers.*** *Mrs.*

Case advised the funds could be utilized to reduce debt or deposit the monies into the Rate Stabilization Fund. Mr. Lindquist stated the County would issue variable rate bonds and receive the same variable rate index from the Provider and the County's commitment to the Provider is the current 5% fixed rate in exchange for the up-front cash. ***Member Lee*** *questioned the distribution of the money difference.* ***Member White*** *advised there might be a money difference over the next 20 years based upon interest rates but the County will receive the up-front cash premium.* ***Member Lee*** *requested the Counter Party.* ***Member White*** *stated the decision has not been made but typically it would be the County's Underwriting Team of Raymond James & Associates and Bank of America as the Counter Party and Manager for the County. Ms. Case stated Kevin Schuyler, of Raymond James & Associates, is waiting to answer questions.* ***Member White*** *explained Raymond James & Associates initiated the idea and they brought their Counter Party of J.P. Morgan; recalled J.P. Morgan was not selected as part of the County's Underwriting Team for various reasons; advised no promises were made to Mr. Schuyler on the deal or firms; and recommended Raymond James & Associates and Bank of America for the transaction. Ms. Case stated she contacted Bank of America representatives not the reverse.* ***Member White*** *stated Bank of America is willing to serve as the Counter Party and it has served in that capacity on numerous occasions.* ***Chairman Devos*** *summarized the Provider is willing to pay the County $3.5 m to $4 million up front based upon anticipated profits over the 20-year bond term and requested the downside if rates should decrease resulting in a negative impact. Mr. Lindquist stated the biggest selling point is that the Provider is willing to pay the County up-front a specific amount for taking a risk based upon the spread of BMA rates being lower than the County's 5% fixed rate commitment.* ***Chairman Devos*** *opined the $3.5 m up-front premium is too low as a threshold.* ***Member White*** *pointed out two weeks ago the premium was over $5 m. Mr. Lindquist explained the benefits to the County of establishing minimum parameters in order to move forward at a moment's notice and secure a higher premium for the County.* ***Member White*** *reminded the Committee that rates are historically low, suggested Mr. Schuyler provide an opinion regarding the threshold, and stated $5 m is too big. Mr. Akers suggested between $4 m and $5 m. Mr. Lindquist opined the rates will not lower significantly between now and the call date i.e. below 4% on a 10-year note, and commented on the likelihood of considering the Current*

Refunding Option in 2003 if action is not taken in the next two months. Bond Counsel, Tom Giblin of Nabors, Giblin et al., suggested Committee Members consider the bonds as refundable now to determine the savings threshold and later determine allocations for capital needs, a Rate Stabilization Fund, or to buy-down rates. ***Member White*** *stated if he was a Charlotte County Utilities ratepayer, he would want the Utility to be as greedy as possible to reduce debt service.* ***Member White*** *recalled prior refundings done at 3% for approximately $3 m. Bond Counsel, Stephen Miller of Nabors, Giblin et al., stated 3% is the normal threshold although 4% has been utilized by some governmental entities.* ***(Member DeBoer was not present for this portion of the meeting.) Chairman Devos*** *concluded the reason to do the refunding now would be to lock in rates lower than anticipated in July 2003. Mr. Lindquist commented on the volatility of rates and events that may cause rate reductions.* ***Commissioner Devos*** *questioned if major hurricane damage would impact the County's credit rating. Mr. Akers stated the utility has a very strong financial standing with sufficient resources to get through such a disaster without adverse impact to the County's underlying "A" rating.* ***(Consensus to allow Mr. Schuyler to present an opinion regarding the threshold.)***

RECESS: 3:40 P.M. - 3:53 P.M.

(Member DeBoer was present for the remainder of the meeting.) Member White *explained that discussion has been held regarding the proposed transaction and requested Mr. Schuyler's opinion on whether the County should move forward and the threshold rate. Mr. Schuyler, as Investment Banker for the County, stated rates and Present Value Savings have fluctuated and are less than 12 years, a Swaption is not a typical refinancing, and recommended the Committee consider a savings level between 3.5% to 4%. Mr. Schuyler pointed out monies in this trade could be based off a 10-year Treasury Bond which is at about 4.15% today, an approximate 70 basis points over the 3.46% rate of about two weeks ago. Mr. Schuyler reiterated his recommendation of 3.5% to 4% of the notional amount of the transaction.* ***MEMBER LEE MOVED FOR APPROVAL TO MAKE A RECOMMENDATION TO THE BOARD THAT THE EURO-SWAPTION BE DONE AT BETWEEN 3.5% TO 4%. Member DeBoer*** *suggested the minimum be set at 3.5% with no cap.* ***MEMBER LEE ACCEPTED THE CHANGE TO THE MOTION, SECONDED BY MEMBER DeBOER. Member DeBoer*** *expressed a preference for utilizing the monies for the benefit of utility ratepayers. Ms. Case stated the* *original intent was to utilize the monies for rate stabilization.* ***CALL ON THE MOTION: DECLARED UNANIMOUS. MEMBER WHITE MOVED FOR APPROVAL TO PLACE AN ITEM ON THE BOARD'S AGENDA FOR APPROVAL OF THE FINANCE COMMITTEE'S RECOMMENDATION TO MOVE FORWARD ON THE EURO-SWAPTION TRANSACTION OF THE COUNTY'S 1993 REVENUE BONDS WITH AN ECONOMIC TRIGGER FOR A MINIMUM GAIN OF 3.5% TO MOVE FORWARD, SECONDED BY MEMBER DeBOER AND DECLARED UNANIMOUS. MEMBER WHITE MOVED FOR APPROVAL TO MAKE A RECOMMENDATION TO THE BOARD TO UTILIZE THE SERVICES OF THE CURRENT UNDERWRITING TEAM OF RAYMOND JAMES & ASSOCIATES AND BANK OF AMERICA AS CO-COUNTER PARTIES ON THE TRANSACTION, SECONDED BY MEMBER DeBOER AND DECLARED UNANIMOUS.***

Attorney Giblin requested direction regarding the 1996 Series Bonds. Mr. Akers stated there are not sufficient savings at this time to do a refunding. Attorney Giblin questioned if the motions regarding the 3.5% threshold are applicable to the 1996 Series Bonds. Ms. Case stated a review of the 1996 Bonds has not been performed.

Member White *stated the Chairman of the Finance Committee usually puts the item on the Board's agenda and offered to assist in the preparation of the golden rod.* ***Member Brangaccio*** *suggested an add-on for the October 22, 2002 Board meeting. Attorney Giblin recommended two resolutions i.e. to authorize the Chairman to sign the swaption agreement, that still needs to be negotiated, and to enter into the agreement based upon a certain threshold parameters.* ***Member Brangaccio*** *indicated* ***Chairman Devos and Member White*** *could present an update at the October 22, 2002 Board meeting. Attorney Giblin suggested revising the resolution to allow the 1993 swaption and stated he will start the process.* ***Member Lee*** *questioned if the time to get Board approval of the revisions will prevent the County from taking advantage of the current rates.* ***Member White*** *stated the rates could increase in three weeks. Attorney Miller opined November 12, 2002 would still be all right. Mr. Schuyler advised economists are uncertain regarding causes for current rate increases i.e. the situation with Iraq and seasonable sales.* ***Member White*** *stated the County has avoided public marketing of bonds near holidays but this is not a typical refinancing and requested the timing for performing the swaption after Board approval of the resolutions and threshold. Attorney Miller estimated two weeks.* ***Member DeBoer*** *questioned what, in addition to the market at a specific time, would establish the* *savings. Mr. Schuyler explained the market at a point in time is significantly influenced by the 10-year Treasury Bond and the tax-exempt market as well as the Financing Team's decision to monitor and/or move forward. Mr. Akers stated he has recommended to clients to close on bonds during the first two weeks in December if they want to close by the end of the year.*

(Assistant County Administrator Howell, Utilities Fiscal Manager Case, and Mr. Schuyler were not present for the remainder of the meeting.)

4. Industrial Development Bonds

- ***Tremron***

Member Lee *advised Tremron, the paver plant desirous of moving into the Airport Commerce Park, has not filed a formal application. Attorney Miller indicated Joe Stanton, formerly associated with Nabors, Giblin et al. and attorney for the bank interested in the transaction, called to ascertain information on the County's process on Industrial Revenue Bonds, feasibility for approval prior to submitting a formal application, and making a presentation to the Board.* ***Member Brangaccio*** *reminded Committee Members that the Board has approved the Commerce Park Overlay prohibiting the proposed Tremron use.* ***MEMBER WHITE MOVED FOR APPROVAL TO TABLE ANY DISCUSSION REGARDING INDUSTRIAL REVENUE BONDS UNTIL THE NEXT FINANCE COMMITTEE MEETING.***

- ***Bon Secours***

Attorney Giblin explained approximately two months ago Merrill Lynch reported Bon Secours is doing a refinancing nationally including the Charlotte County, Venice, and St. Petersburg facilities; contacted him to find out if Charlotte County would be interested in doing a refinancing for the hospital; and after talking with ***Members Lee and White,*** *he indicated Bon Secours should file an application. Attorney Giblin stated he spoke with the hospital's attorney last Friday; was told that one bond issue would be done through Venice with interlocal agreements with Charlotte County and St. Petersburg; he indicated that a letter should be sent to Charlotte County regarding these intentions; and he is uncertain as to the status.* ***SECONDED BY MEMBER DeBOER AND DECLARED UNANIMOUS. Chairman Devos*** *requested* *a motion to set the next meeting.* ***Member White*** *stated there is no further business at this time.*

5. Adjournment

MEMBER DeBOER MOVED TO ADJOURN THE MEETING, SECONDED BY CHAIRMAN DEVOS AND DECLARED UNANIMOUS.

MEETING ADJOURNED: 4:20 P.M.

Sara Devos
Chairman

ATTEST:

BARBARA T. SCOTT, CLERK
OF THE CIRCUIT COURT AND
EX-OFFICIO TO THE BOARD
OF COUNTY COMMISSIONERS

By ____________________
Deputy Clerk

djn