

MEETING OF THE FINANCE COMMITTEE

April 2, 2003

A meeting of the Finance Committee was held at the Murdock Administration Center, Board of County Commissioners Conference Room, Port Charlotte, Florida. The following members were present: Chairman Matthew D. DeBoer, Commissioner Mac V. Horton, County Administrator Bruce D. Loucks, Clerk of the Circuit Court Barbara T. Scott, Deputy County Attorney Brendan Bradley as a voting member in lieu of County Attorney René Francis Lee, and Chief Deputy Board Services Tommy Q. White. Others in attendance were County Budget Officer Ann Navan, Utilities Fiscal Manager Laurie Case, and Deputy Clerk Diane J. Nice.

1. Call to Order

Chairman DeBoer called the meeting to order at **10:03 A.M.** and added to the agenda an update on Port Charlotte Land Redevelopment a/k/a Port Charlotte Landings, Murdock Town Center, and DeBoerville.

2. Introductions

Chairman DeBoer requested introductions and the following introduced themselves: Financial Advisor Gary E. Akers, Senior Vice President of Stifel, Nicholas & Co., Inc., Hanifen, Imhoff Division; Kevin Schuyler of Raymond James & Associates, Senior Underwriter; and Bond Counsel Tom Giblin of Nabors, Giblin & Nickerson, P.A.

Chairman DeBoer requested a motion to approve the October 21, 2002 minutes and stated he has a question. **Member White** advised he tried to call to clarify and stated the motion and second were applicable to the industrial development bonds. **MEMBER WHITE MOVED FOR APPROVAL OF THE OCTOBER 21, 2002 MINUTES, SECONDED BY MEMBER HORTON AND DECLARED UNANIMOUS.**

3. CCU Utility System Refunding Revenue Bonds, Series 1996A
• **Financial Opportunities/Swaption**

Gary E. Akers, Senior Vice President, of Stifel, Nicholas & Co., Inc., Hanifen, Imhoff Division, recalled the Finance

Committee met last fall to consider a swaption of the 1993 Refunding Revenue Bond issue; the Committee made a recommendation to the Board to proceed with the swaption contingent upon achieving a minimum savings of 3.5%; the Board approved the recommendation; and a \$3.7 million check was given to the County that represented 4.29% of the callable 1993 Series bonds; pursuant to the swaption the provider and counter party team, Raymond James & Associates and Bank of America, exercised the option to require the County to issue variable rate bonds; the anticipated completion date is July with a closing in August 2003 and a swap of the variable rate bonds for fixed rate bonds under the terms agreed upon following Board action and signed by the Chairman. Mr. Akers explained since exercise of the option by the counter party was anticipated, steps have been taken to develop the bond issue including the authorizing resolution, preliminary statement, and credit package for mid summer. **Member Loucks** questioned the establishment of a cap or ceiling on the variable rate bonds. Mr. Akers stated the cap is representative of the 5% fixed rate as part of the swaption since the County received \$3.7 million up front. Mr. Akers requested additional information from Laurie Case, Utilities Fiscal Manager. Ms. Case distributed the Schedule of Debt Service Coverage for the Fiscal Year ended September 30, 2002 and informed the Committee that debt service coverage is a little less than last year but it is still strong and the Utility is in good standing; stated if \$2 million had not been reserved out of revenues for Rate Stabilization, the coverage for the State Revolving Fund (SRF) test would be 153%. Ms. Case pointed out capital is not calculated in the Schedule. **Member White** requested the difference in reserve of the \$2 million and the \$3.7 million put aside. Ms. Case stated the \$2 million may be utilized for bond coverage and the \$3.7 million has been set aside in Reserves from a budget standpoint. **Member Loucks** indicated allocations of the \$3.7 million are flexible. **Chairman DeBoer** questioned the use of swaption on existing bonds exclusive of the 1996 Series. **Member White** advised there is one. Mr. Akers explained the rationale for the County retaining flexibility to call bonds. **Chairman DeBoer** requested an explanation regarding the possibility of that occurring with the Peace River Plant. Ms. Case stated when the Utility was acquired, the County fronted bonds for the acquisition and a portion was allocated to the Peace River Plant; it is paid by all of the Authority Members i.e. a portion of the bonds is recovered by money paid by rate payers of the Plant; and the

Authority has considered buying out the portion of the debt relating to the Plant i.e. the outstanding portion paid would be used to benefit all of the Peace River and Charlotte County Utility customers. Ms. Case reported the County's Bond Counsel and Financial Advisor serve in the same capacities for the Authority. **Chairman DeBoer** pointed out if swaption was done for the rest of the debt and the Peace River buy out took place, the County would get the money but not to retire the bonds on. Mr. Akers stated that would be an alternative as well as capital needs. Mr. Akers explained restrictions exist on the \$3.7 million swaption payment received since the funds are considered bond proceeds for allocating to capital improvements to the system whereas the credits received from Peace River, in terms of charges for the water purchased by the County, for tax purposes that money could be allocated to the system but not in the same way as the swaption payment, i.e. the monies could be used for operating expenses, debt service, or a rate stabilization fund. Ms. Case pointed out, even if the buy out occurs, the outstanding debt would still exist and the principal and interest would need to be paid. Ms. Case stated since she learned the \$3.7 million must be allocated to capital uses, she reviewed the Capital Improvements Program and found projections for Operations and Maintenance are \$3 million this year, \$3.3 million in FY 2004, and \$4.2 million in FY 2005 so there will not be any problem in covering the \$3.7 million for capital. **Chairman DeBoer** requested the amount of savings to be achieved citing the 3.5% on the Euro Swaption. Mr. Skylar suggested a recommendation be made for the Board to consider a Bermudian swaption for a two-year period during which the County may gain an additional \$50,000 to \$75,000. Mr. Akers stated instead of providing one option on the call date of October 1, 1996 the Bermudian Swaption would add an additional two years and a recommendation would be necessary at the time of swaption execution for the Euro or Bermudian. **Member White** reported a difference from the 1993 Bonds that are due this fall is that these would not be due until 2006 and the County could refund them every six months or four more times. **Member White** requested the down side to the Bermudian Swaption. Mr. Skylar commented on the uncertainty during the two-year period since it would be up to the provider to give the 90-day notice, explained the call premium may go from 2% down to 0% during that period, and estimated the 2% on a \$30 million deal would equate to \$600,000 extra being paid out to the bond holders if called early whereas the costs associated with a 0% call may be

captured to a degree when giving that option versus picking up \$50,000 to \$100,000 depending on the market. **Member White** requested the economic downside. Mr. Skylar stated there is none. Mr. Skylar explained if the provider does not execute the swap, the County would continue paying on the old debt and if the provider does not execute the swap by a 0% call date, the County would retain the money received and the County may do something else with the bonds. Attorney Giblin added the County would lose the ability to do a refunding for two years. **Member Loucks** requested the interest rate. Mr. Skylar advised about 5.2% and the current market is approximately 4.9% on \$32,890,000. **Member White** pointed out there will be a severe call premium for two years to refund these bonds early. Mr. Skylar advised there is no advance refunding on these bonds and if the rates are higher, the provider would not request exercise of the option nor would the County want to refund the bonds. Mr. Akers stated it would provide additional flexibility to the provider of the agreement and they would be willing to pay more money. Mr. Akers suggested the recommendation to the Board include the options and prior to execution of the transaction, a decision can be made on the specific option to be exercised. Mr. Skylar pointed out premium amounts may be provided with and without the option on a daily basis if the swaption is approved and a decision may be made to best financially benefit the County. Attorney Giblin pointed out it is not necessary today to make a decision on the Euro or Bermudian swaption, a decision may be made at a Board meeting regarding the two-year time frame or the Chairman may be authorized to make the decision based upon certain parameters. **Member Loucks** questioned the possibility of a model being run to reflect the level at which the market, based on a 2% call and a fixed rate, would have to change for the Bermudian swaption to become disadvantageous. Mr. Skylar reported the Bermudian would always be greater than the Euro swaption. **Member White** pointed out the provider would also pay more for more flexibility i.e. four calls during the Bermudian versus one in the Euro swaption. Mr. Akers added less risk and recalled the last time it would not be worth it since it was close to the exercise date. **Chairman DeBoer** requested a recommendation regarding the options. **Member White** stated the question would be if \$60,000 to \$100,000 cash in the County's pocket be worth giving the provider the flexibility and there is no economic downside. **Member White** requested the Euro swaption date. Mr. Skylar recalled October 1, 2006 and explained the unlikelihood of the provider exercising the option if the rates

are high and remain high. **Member White** stated he has not heard a reason not to go forward with the Bermudian swaption. Mr. Akers suggested keeping both alternatives available and then make a decision when the County is ready to enter into the swaption. Attorney Giblin suggested authorizing the Chairman make a decision on the two-year window upon achieving a minimum threshold, i.e. \$50,000 or \$60,000. **Member White** suggested setting a threshold of \$75,000 in which case the provider may be willing to pay \$10,000 to get the flexibility, pointed out the flexibility decreases as the option dates pass, and recommended setting a 4% present value gain although it has been in the 3% to 3.5% range. Mr. Akers suggested \$100,000 or less. Mr. Skylar stated a lower amount may be put in and a higher internal goal set. **Member White** questioned the possibility of making evaluations at any point in time on the worth based on market conditions. Mr. Akers stated the value and the difference of both options may be determined but not the worth and stated consideration should be given on the worth, \$50,000 to \$75,000, for the added flexibility to the County over the two-year period. **Member White** opined rates would have to be drastically lower than current rates to make calling the bonds worth it considering the premium and although the County would have the flexibility of calling the bonds in during the two-year period, the changes would not be great. **MEMBER WHITE MOVED FOR APPROVAL FOR THE FINANCE COMMITTEE TO MAKE A RECOMMENDATION TO THE BOARD OF COUNTY COMMISSIONERS, AT THE NEXT MEETING, TO ENTER INTO A POTENTIAL SWAPTION ARRANGEMENT REGARDING THE UTILITY SYSTEM REFUNDING REVENUE BONDS SERIES 1996, IF THE ECONOMIC GAIN ACHIEVED IS A MINIMUM 3.5% AND AUTHORIZE THE CHAIRMAN TO MAKE A DECISION REGARDING THE EURO OR BERMUDIAN OPTION AT A LATER DATE CONTINGENT UPON THE COST TO THE PROVIDER FOR THE BERMUDIAN OPTION IS AT A MINIMUM OF \$75,000, SECONDED BY MEMBER HORTON AND DECLARED UNANIMOUS.** **Member White** pointed out the transaction may occur very quickly since all of the documents have been developed unlike the last one that took about three to four months. Mr. Akers explained if variable rate bonds are issued and not swapping to fixed rate bonds, a floor (minimum) or a collar (maximum) interest rate could be purchased for variable rate bonds whereas if the swaption occurs from variable to fixed rate bonds it will not be necessary to establish caps on the interest rate. **Member White** questioned if use restrictions should be included on the golden rod. Ms. Case stated the funds must be used for capital and may be used in conjunction with rate stabilization. Attorney Giblin advised monies from the

swaption must be allocated to system improvements and for bookkeeping purposes an entry must show that the \$3.7 million or additional \$1 million is going for capital improvements to free up other money that can be put into a rate stabilization fund or operating expenses. **Chairman DeBoer** expressed a preference for the monies to be allocated the same as the last swaption. **MEMBER LOUCKS MOVED FOR APPROVAL FOR THE FINANCE COMMITTEE TO RECOMMEND TO THE BOARD OF COUNTY COMMISSION THAT AN AMOUNT EQUAL TO THAT ALLOCATED TO CAPITAL EXPENDITURES ALSO BE ALLOCATED TO THE RATE STABILIZATION FUND, SECONDED BY MEMBER WHITE AND DECLARED UNANIMOUS.**

4. Update on Upcoming Utility System Revenue Refundings Issue, Series 2003

Mr. Akers stated the update was included in the prior discussion, pointed out the possible achievement of \$1 million or 3% set out in Financial Opportunities brochure compiled last week has increased to \$1.2 million, and commented on market fluctuations. Ms. Case indicated a re-rating would not be necessary. Mr. Akers clarified the rating would need to be confirmed. **Discussion ensued regarding presentations of the "mock check" to the Board of County Commissioners and the "actual check" to the Clerk's Finance Office and the newspaper and media regarding these transactions.**

5. Peace River Debt Buy-Out - Information Only

Mr. Akers estimated the buy-out at between \$27 million to \$28 million and stated timing is not an issue since Peace River is working on a bond issue and debt financing will go at least through the end of this calendar year. Ms. Case stated she has not seen any proposal. Mr. Akers stated the Peace River Board has not approved anything to make a proposal. Attorney Giblin advised negotiations would be necessary between the County and the Authority and the documents relevant to the General Development Utility acquisition are vague regarding buy outs. **Member Loucks** questioned the possibility of conflicts of interest based upon Mr. Akers serving as Financial Advisor to the Board and the Authority. Mr. Akers opined no conflict exists, recalled the County supported Mr. Akers' retention by the Authority, the evaluation of monies will be logical based upon the County's original financed amount and how much is outstanding. **Member Loucks** requested verification of the

County's approval of the transaction. Attorney Giblin advised County approval is required for the buy out and suggested authorizing the County Attorney to consult with the attorney for the Peace River Board on the numbers. **Chairman DeBoer** suggested County staff perform calculations for buy out. **Member Loucks** expressed concern about including Mr. Akers on internal discussions since he serves as Financial Advisor to the County and the Authority. Mr. Akers acknowledged **Member Loucks'** concern, stated he does not serve in the capacity to recommend a buy out amount to the Authority since the County will need to agree on the methodology for debt allocation. Mr. Akers stated interactions and negotiations between the County and Peace River will be easier with him as a dual Financial Advisor instead of an outside party.

6. Port Charlotte Landings

Chairman DeBoer stated the redevelopment area is comprised of approximately 1,100 acres currently on the tax roll and appraised at \$61 million; the project will be done in phases; financing and options will be required; steps are being taken to develop requests and qualifications for proposals for developers, establish a Community Redevelopment Area (CRA), use of Tax Incremental Financing, and a bond issue. **Chairman DeBoer** stated the Board approved the conceptual plan and there has been a lot of interest from developers. Attorney Giblin questioned who would determine the compilation of the parcels for bonding. **Chairman DeBoer** expressed uncertainty, recalled the first internal meeting is scheduled for Monday, the Board has authorized staff to start acquisitions of the lots, commented on adopting a resolution of necessity and establishing a CRA and acquire land under County ownership. **Member White** stated one lump sum of money will not be available to purchase all of the lots; suggested utilizing interfund monies and a commercial paper loan to take out one or two bond issues; and recalled the commercial loan program was used with SRF monies for the utility along with a bond. Attorney Giblin advised under a public/private partnership a lot of tax issues will need to be addressed i.e. what circumstances qualify for tax exempt status and reduce the taxable debt and suggested he and the County Attorney be included at an early stage of the project. **Discussion ensued regarding the attendees and notification for the Monday internal meeting.** **Chairman DeBoer** referenced an article in Florida Investment magazine and advised another would

be published in the future. **Member Loucks** recalled public/private partnerships in West Palm Beach and stated this one is different since the County is taking the lead. **Chairman DeBoer** stated work is progressing based on the economic window but work needs to be done to promote the redevelopment as a positive goal for the County in light of the political window and current Board Members. **Member Loucks** questioned Attorney Giblin's involvement in the public/private partnership regarding a 5,500 acre West Palm Beach development. Attorney Giblin responded affirmatively and recalled it was developer driven and the end result was a beautiful community. **Member Loucks** indicated Requests for Proposals (RFP) and Requests for Quotes (RFQ) for developers are being drafted and requested input. **Chairman DeBoer** stated he has received a lot of people in his office who are interested in the project and that e-mail notification would be sent to individuals to attend the internal meeting.

7. Adjournment

MEMBER LOUCKS MOVED TO ADJOURN THE MEETING, SECONDED BY MEMBER WHITE AND DECLARED UNANIMOUS.

MEETING ADJOURNED: 11:05 A.M.

Matthew D. DeBoer
Chairman

ATTEST:

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

By _____
Deputy Clerk

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