

MEETING OF THE FINANCE COMMITTEE

December 3, 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, County Attorney René Francis Lee, and Chief Deputy Board Services Tommy Q. White. Others in attendance were County Budget Officer Ann Navan, Utilities Director Lawrence C. Tropea, Jr., Utilities Financial Manager Terri Kesner, and Deputy Clerk Diane J. Nice.

1. Call to Order

Chairman DeBoer called the meeting to order at **1:15 P.M.**

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; Bond Counsel Tom Giblin of Nabors, Giblin & Nickerson, P.A., and Utilities staff.

3. Approval of Finance Committee Minutes - April 2, 2003

Chairman DeBoer requested and the minutes were copied for review by Committee members during the meeting.

4. Financing of Florida Water Services Acquisition (Deep Creek and Burnt Store Utilities)

Lawrence C. Tropea, Jr., Utilities Director, stated on October 21, 2003, the Board approved the purchase of the Florida Water Services Corp. utility systems utilizing a commercial paper loan for approximately \$10.5 million for the acquisition, initial capital expenditures, and working capital; staff has been working through the Florida Association of Counties with Wachovia Bank to secure a loan; the Bank presented options (1) to agree to a covenant to budget and appropriate legally available non-ad valorem funds each year for repayment or (2) to get Florida Department of Environmental Protection (FDEP) to

subordinate the existing State Revolving Fund (SRF) loans; advised Option 2 would be more beneficial than Option 1 to the County; Bond Counsel is optimistic on being able to get FDEP to subordinate the SRF loans but it will take time; a similar subordination was done last year for Collier County; estimated 120 days to get the subordination; recommended an inter-fund loan be implemented for \$5.5 million from the Utility Connection Fee Fund to fund the acquisition and some of the initial capital and working capital costs with repayment after resolution of the FDEP issues and receipt of the commercial paper loan from the Bank; and this item is on the Board's December 9, 2003 agenda. **Member White** explained prior commercial paper loans have been based upon budget appropriation covenants and specified revenue streams for repayment; funding for this acquisition may also be obtained in the same manner but there is a limit to how much the County may borrow under the covenant to budget non-ad valorem revenues; the County has never been near the limit but this \$10.5 million would use up a lot of the capacity; advised County Budget Officer Ann Navan intends to request approximately \$8 million in a commercial paper loan for non-Utility programs that will be funded from assessments; reported the Bank has no objection to the loan being subordinated to the County's bonds but not the SRF loans; and recommended proceeding with an inter-fund loan, a closing within about 30 days, and repayment with the commercial paper loan. **Member Lee** requested the purchase price. Terri Kesner, Utilities Financial Manager, advised \$3,753,122 plus settlement costs. **Chairman DeBoer** verified the actual purchase would be funded internally with improvements to be done later after resolution of the issues. Mr. Tropea indicated a letter has been prepared to send to FDEP subject to the Board's approval of the funding. **Chairman DeBoer** concurred with Option 2. **Member Lee** requested clarification regarding the \$5 million shortfall and the County's ability to comply with the Consent Order and Agreement with FDEP. Mr. Tropea advised the \$5.5 million will cover the acquisition, all of the capital expenses, and working capital for approximately 120 days; and reported the \$10.5 million amount may be reduced due to investments made by Florida Water Services at the County's recommendation. **MEMBER LOUCKS MOVED FOR APPROVAL TO RECOMMEND OPTION 2 TO DO AN INTER-FUND LOAN FROM THE UTILITY CONNECTION FEE FUND FOR ACQUISITION COSTS PENDING FDEP'S SUBORDINATION, SECONDED BY MEMBER LEE.** **Member Lee** assumed the inter-fund

loan would be paid back with interest. Mr. Tropea responded affirmatively. **CALL ON THE MOTION: DECLARED UNANIMOUS.** Mr. Tropea stated the recommendation would be made to the Board at the December 9, 2003 meeting.

**5. Peace River Water Authority Buy-Out (Information Only
- if necessary)**

Member White recalled this item was on the last agenda and it was placed on this agenda to bring back additional information regarding the buy-out of the debt on the Water Plant. Gary E. Akers, Senior Vice President, of Stifel, Nicolaus & Co., Inc., Hanifen, Imhoff Division, agreed a discussion was held at the last meeting; advised the status remains substantially unchanged; an agreement needs to be developed based upon the capital costs of each county in order to move ahead with the bond issue and expansion; and no figures have been calculated for finalization on the buy-out. Mr. Tropea stated a couple meetings have been held, at the last meeting in early November there was discussion about the linkage the project and financing i.e. between when the funds would be needed for construction and have the plant in operation and not borrowing funds prematurely; and suggested a better proposal may be available in January 2004.

6. Synthetic Fixed Rate Enhancement Structure to Utility System Revenue Refunding Bonds, Series 2003A and 2003B and Secondary Swap

Member White explained this is a refinancing opportunity; recalled the refinancing approved in April 2003 of the 1993 Series Utility Bonds from fixed rate to variable rate bonds; within the refinancing a Swaption was done that swapped the variable rate to fixed rate bonds at the original fixed rate and afford a \$5 million cash up-front payment to the County; this process would be in place for the length of the remaining bonds i.e. the variable rates bonds are marketed and monitored weekly, payments are made based upon the fixed rate, and interest is received on the BMA; there are other refinancing opportunities available such as fixing the variable rate bonds again to achieve a second swap or a synthetic fixed rate to allow for another gain based upon the market; he has consulted with Kevin Schuyler of Raymond James & Associates, Senior Underwriter, for approximately two months; and suggested Mr. Schuyler be

allowed to make a presentation. Tom Giblin of Nabors, Giblin & Nickerson, P.A., Bond Counsel, cautioned that the transaction would take time and the Board will need to take several actions, notice must be given to the bond holders, insurance company, and rating agents, and a new official statement will be required. **Member White** reported Mr. Schuyler has estimated a \$1.4 million gain over a four-year period and explained a lot of staff time would be necessary in addition to the audit being performed and the Florida Water Service acquisition. **Member Lee** questioned if the funds would go back into the Utility. **Member White** stated that has not been addressed and the gain may not be cash up-front. Mr. Akers pointed out the way it has been presented is that the County would receive cash over four years; reminded Members that the County would incur a significant amount of up-front costs that would reduce the gain; and even though other refinancing options will occur based upon the market throughout the life of this bond issue, it is financial opportunity that is worth looking into. **Member Lee** opined the annual net gain would not be enough for any specific project. **Chairman DeBoer** stated the County would be in the red for the first two years. After a brief discussion, **Chairman DeBoer** announced that Mr. Schuyler would be allowed to make a 10-minute presentation followed by questions and consideration. **(Member Lee was not present for the remainder of the meeting.)** Mr. Schuyler, accompanied by Eric Frye, made a presentation based upon the Synthetic Fixed Rate Enhancement Structure to Utility System Revenue Refunding Bonds, Series 2003A and B report, dated December 3, 2003; explained the best enhancement structure at this time is the four-year with a gross present value benefit of approximately \$469,000 per year; the County would have the option to obtain a loan from the provider of the enhancement to have the monies forwarded up front but it would net less savings; this would reduce the County's debt service during the four years at approximately \$400,000 per annum; the costs of issuance may be paid from the proceeds or the provider of the enhancement could provide an up-front loan for the costs but this would reduce the annual savings. **Member White** recalled the minimum savings is approximately 3.5%. Mr. Schuyler advised a traditional refunding encompasses all of the bonds to maturity before a minimum of 3% savings versus, in this case, approximately one-fifth of the term of the bonds will be done and the 3% rule for the savings does not apply since this would be

considered an enhancement of approximately another \$1.3 million. Mr. Schuyler explained at the end of four years, the bonds would revert to the current terms and because multi-modal documents for the current outstanding variable rate bonds were put in, the modes may be switched without doing a refunding of the bonds. Mr. Schuyler reiterated this enhancement to the savings that have already been generated would provide an additional \$1.3 million. **Discussion ensued regarding issuance costs based on current and future estimates; if a mode change is implemented would a letter be required by the insurers and the indenture; the use of unaudited financial statements for net revenue, debt service, and expenses; changes necessary to the Official Statement; the possibility of entering into an agreement for remarketing and locking in fees through a certificate; if the enhancement is done, there will be significant staff time involved; the Water Authority bonds would not be impacted; payment for premium bonds up front rather than par bonds; and County's payment of \$500,000 in costs to get \$300,000 per year for four years. (Messrs. Schuyler and Frye was not present for the remainder of the meeting.)**

3. Approval of Finance Committee Minutes - April 2, 2003

Chairman DeBoer requested a motion to approve the minutes. **MEMBER WHITE MOVED FOR APPROVAL OF THE APRIL 2, 2003 MINUTES, SECONDED BY MEMBER HORTON. Chairman DeBoer** announced the minutes were approved without objection.

6. Synthetic Fixed Rate Enhancement Structure to Utility System Revenue Refunding Bonds, Series 2003A and 2003B and Secondary Swap (continued)

Chairman DeBoer questioned the availability of the enhancement now versus three months ago. **Member White** related Mr. Schuyler has indicated that based upon the structure of the bonds in place, here is another market advantage. **Member White** reiterated the bottom line is whether it would be worthwhile to the County. **Commissioner Horton** responded negatively. **Member Scott** suggested preparing the documents and waiting for favorable market changes to do the enhancement. Attorney Giblin pointed out several actions would be necessary by the Board, one of which, is to set the goal or minimum gain. **Member White** agreed with **Member Scott** since the timing is not good due to the audits and the Florida Water Services acquisition

and suggested reconsideration at the next Finance Committee meeting. Mr. Loucks requested the savings and gains be monitored on the current and proposed. Attorney Giblin indicated a time line should be brought back for Board actions. **Member White** suggested no action be taken at this time, reconsider the enhancement at the next Finance Committee meeting, monitor the difference between the BMA and proposed enhancement rates over the next several months, and bring back a time line for all Board actions. **MEMBER WHITE MOVED FOR APPROVAL TO CONSIDER THE ENHANCEMENT AS A VIABLE IDEA FOR THE FUTURE, NO ACTION BE TAKEN AT THIS TIME, BRING IT BACK UP AT THE NEXT FINANCE COMMITTEE MEETING, MONITOR THE PROGRESS OF INTEREST RATES, AND BRING BACK THE TIME LINE.** **Chairman DeBoer** clarified the motion is to keep it under consideration and get a time line. **Chairman DeBoer** announced the motion was approved without objection.

7. Other Items to be Considered

None.

8. Adjournment

Chairman DeBoer announced the meeting was adjourned without objection.

MEETING ADJOURNED: 2:45 P.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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