MEETING OF THE FINANCE COMMITTEE

April 24, 2006

A meeting of the Finance Committee was held at the Murdock Administration Center, County Administrator's Conference Room, Fifth Floor, Port Charlotte, Florida. The following members were present: Chairman Thomas G. Moore, Commissioner Matthew D. DeBoer, County Administrator Bruce D. Loucks, Clerk of the Circuit Court Barbara T. Scott, County Attorney Janette S. Knowlton, and Chief Deputy Board Services Tommy Q. White. Others in attendance were Budget Director Raymond Sandrock, Finance Director Ann Navan, Utilities Director David G. Schlobohm, Utilities Financial Manager Debra Smith, Assistant Utilities Director Terry Kesner, Environmental-Extension Services Director James Thomson, Minutes Supervisor Diane Nice, Deputy Clerk Gail Manley, Gary Akers, Senior Vice President of Stifel Nicolaus and Company, Inc./Hanifen Imhoff Division (Financial Advisor), Tom Giblin of Nabors, Giblin & Nickerson (Bond Council), Henry Reyes of Raymond James & Associates, Inc. (Bond Underwriter), Kapil Bhatia of Raymond James & Associates, Inc. (Bond Underwriter), and Henry Thomas of Public Resources Management Group (Rate Consultant).

1. Call to Order

Chairman Moore *called the meeting to order at* ***2:35 P.M.***

2. Introductions

Chairman Moore *requested introductions and all attendees introduced themselves except Deputy Clerk Gail Manley.*

3. Approval of Finance Committee Minutes - November 21, 2005.

MEMBER WHITE MOVED APPROVAL OF THE NOVEMBER 21, 2005 FINANCE COMMITTEE MINUTES, SECONDED BY COMMISSIONER DEBOER AND DECLARED UNANIMOUS.

4. *Update of issues from most previous Finance Committee Meeting.*

a. *Peace River/Manasota Regional Water Supply Authority Financing (Handout)*

Member White *explained the previous Finance Committee meeting was called specifically to give* ***Commissioner Cummings*** *direction on the Peace River Expansion financing; at that meeting the Finance Committee moved to recommend to the Board of County Commissioners for* ***Commissioner Cummings,*** *as Peace River Authority Board Member, to approve the Peace River Water Authority moving forward with the Regional Expansion Financing as proposed.* ***Member White*** *advised the bonds were sold at very good rates and produced the money to expand the operation and a letter from the County's Financial Advisor on the Peace River Expansion financing deal, Hal W. Canary, CPA, Managing Director, Public Financial Management, Inc. (PFM), is in the packet explaining the successful financing result.*

5. *Series 1996A Utility Bonds.*

a. *Swaption Update (timing, variable rate issue)*
b. *Swaption Termination (fixed rate issue)*
c. *Upcoming bond issue (timing)*

Member White *indicated this item is the main purpose of today's meeting; a few years back there were two types of Swaptions, the 2003 Bonds and the Series 1996A Bonds; one produced in excess of $3 Million cash for the Utility; and one produced in excess of $1 Million cash for the Utility.* ***Member White*** *explained the option on one was exercised in the same year that the Swaption was created, the variable rate bonds were sold, the date for the option to be exercised on the Swaption is within the next few months, and the bond is being called a few months after that; the County Financial Advisor and Senior Manager of the Underwriting Team are here because the County must move forward on this one way or the other, the option will be exercised, and we will either call the O bonds and sell the variable rate bonds, or move in another direction to produce more economic benefit for the County and the Utility.* <u>*Gary Akers*</u>*, Stifel Nicolaus and Company, Inc./ Hanifen Imhoff Division, Financial Advisor, distributed an update based upon the market as of the* *end of last week and gave an overview of the outstanding bonds. Mr. Akers explained in 1996 the County originally sold $55,620,000 in bonds, and the amount that can be called on October 1, 2006 is $32,890,000, which is what is being focused on in the Swaption agreement. Mr. Akers stated that in Callable Maturities there are Serial Bonds outstanding that mature October 2006 through October 1, 2011 and a term bond in October 1, 2016, with the final maturity of October 1, 2021; the call date, or first time it can be done, is October 1, 2006; interest rates range from the earliest maturity of 5.300% to 5.625% on the final term bond, and the average for all the bonds being focused on is 5.611%. Mr. Akers reviewed the existing Swaption Structure and explained the trade date the County entered into was May 13, 2003 and some savings were created based on the market; it was not possible for the County to actually sell bonds at that time, so with the Swaption agreement the County was able to access a good market and received a premium of $1,202,500 from the Counterparty, Bank of America, which is still one of the Underwriters. Mr. Akers advised Bank of America has the option of asking the County to go ahead with the Swaption and has indicated they want the County to do so on the exercise date of August 2, 2006. Mr. Akers explained $1,099,414 was set aside to pay costs of issuance and the call premium on the bonds; the amount of the Swaption, called the Notional amount, is $32,890,000; if the County were to proceed and complete this, the County would issue variable rate bonds; and the agreement states it would be swapped back to a fixed rate of 5.200%. Mr. Akers recalled expectation that interest rates would go up in 2003 but they did not go up as much as anticipated and the yield curve changed dramatically, short-term rates went up and long-term rates stayed fairly flat. Mr. Akers reviewed the analysis marked Financial Benefits of Refunding; reported the County may terminate the Swaption agreement; and after paying the termination payment of $1,450,000, the net benefit to the County, based upon existing market conditions, would be $1,752,500; and concluded at this time the County would benefit from terminating the agreement and paying the termination fee. Mr. Akers indicated that Raymond James also evaluated numbers on a callable and non-callable bond issue; the County has historically sold bonds that could be called; non-callable bonds would produce additional savings, but there are no guarantees that in the next 90-120 days the number would stay the same because it is based on the current market.* ***Member White*** *pointed out there is a continuing risk during the life of* *the bond issue if variable rate bonds are issued; and if that prospect can be eliminated and additional money can be made, it is more feasible to terminate the Swaption and issue fixed rate bonds. Henry Reyes, Raymond James & Associates, Inc., Bond Underwriter, indicated when these bonds have been swapped to fixed rates, in essence there would be a fixed rate obligation that would kick in if that option is exercised; but terminating the Swaption and issuing regular bonds are separate transactions with a little less risk and, hopefully, a slight positive to the savings would be achieved from the transaction entered into in 2003. Mr. Reyes reported rates that have to be monitored are a little complicated and explained the monitoring relationships of bond rates and swap rates.* ***Member White*** *inquired if callable bonds are more marketable. Mr. Reyes stated, generally, it would in the County's interest to have callable bonds because they allow more flexibility and advised tax law does not allow advanced refinancing until the call date.* ***Member Loucks*** *requested the bond maturity if existing callable maturities were converted to a fixed rate. Mr. Akers indicated it would be the same maturity date of 2021.* ***Member Loucks*** *stated if the period would be 10 years or less, he would suggest looking at callable/non-callable rates but a lot could change in 15 years or more, and it is more worthwhile to look at a callable bond.* ***Member White*** *stated the bottom line is the option will be exercised, a variable rate bond issue will be done, and he is not hearing any reasons to not terminate the Swaption.* ***Member White*** *inquired, assuming step 1 happened today and step 2 happened at the May 9, 2006 Board meeting or soon thereafter, when would this have to halt because it made no sense.* ***(Discussion ensued on time periods, and Member White indicated the final time period is from July 3, 2006 to August 2, 2006.)*** *Mr. Akers indicated one of the more time-consuming things in the process is preparation of disclosure documents, and if the County proceeds with its own bond issue and termination of the Swaption, and if it does not make sense financially, the document could be changed rather quickly into a variable rate offering bond; and advised the financial information would be a critical part of the disclosure document.* ***Member White*** *announced most of the critical financial information would come from Utilities and he is prepared to vote or make a motion.* ***Commissioner DeBoer*** *stated he would take the same position he did at the last meeting when paperwork was presented at the door for members to vote on, he objected to it at the last meeting, and objects to it at this meeting.* ***Member White*** *apologized to*

Commissioner DeBoer *for not getting information to the members sooner.* ***Chairman Moore*** *requested clarification of the issue.* ***Member White*** *explained the nature of refinancing is in the market, either the County's own refinancing, whether a Swaption is involved or not; preparations begin several months in advance because the market is favorable and, before pricing the bonds, it is known the advantage could be lost; if today's market goes unchanged between now and the pricing date, the County comes out financially favorable; if it slips away, there is a reduced benefit, and if it slips too far, there is no benefit and the bonds are not priced; the market could go in the County's favor and the benefit be even greater, but it is a dangerous situation if the County does not move forward. Mr. Akers stated this matter will come to the Board twice, after this meeting, before finalization; the next step would be for the Board to authorize the professional team to proceed with development of the financing at which time the team would get the bonds insured and rated; about a week before the bonds would be sold, the matter would be brought back before the Board and if there is no financial benefit, the Board would likely decide not to proceed; and at both meetings updates will be provided based upon the market and the financial benefits to the County.* ***MEMBER WHITE*** *explained this only puts the process in motion and does not make it irreversible.* ***MEMBER WHITE MOVED TO RECOMMEND TO THE BOARD THAT THE COUNTY FINANCIAL TEAM BE AUTHORIZED TO MOVE FORWARD TO TERMINATE THE SWAPTION AND REFUND THE COUNTY'S BONDS, SECONDED BY MEMBER SCOTT. CALL ON THE MOTION: MEMBERS MOORE, WHITE, SCOTT, LOUCKS, AND KNOWLTON VOTED "YES" AND COMMISSIONER DEBOER VOTED "NO." MOTION CARRIED: (5:1).***

6. ***Other Utility (CCU) financing updates.***

Member White *explained Utilities is giving advance notice of additional financing needs associated with expansions. David G. Schlobohm, Utilities Director, explained projects totaling about $140 Million are for alternative water sources and expansion of three of the four wastewater facilities and $68 Million in bonding is needed for FY08.* ***Member Loucks*** *inquired if the $140 Million included MSBUs. Debra Smith, Utilities Financial Manager, advised it did not include MSBUs because those are funded from a separate source; $68 Million of financing is needed and the remainder is supported by grants, connection fee funds, and developer contributions; that there are other projects in the CIP for the five years, but there are other* *sources, and they are not bond-related; that there are no grants in the projects the bonding is needed for, but part of the overall CIP plan has some grant funding available. Mr. Schlobohm reported of the $68 Million, $21 Million is needed for wastewater and $46.6 Million for the alternative water facilities.* ***Chairman Moore*** *requested clarification of alternative water facilities. Mr. Schlobohm explained it was the Burnt Store Plant expansion, countywide ground water treated with reverse osmosis, and several potential interconnects.* ***Member White*** *asked how rates would be affected. Ms. Smith stated a rate study is being done and will be presented within the next couple weeks; a 9% increase for water and sewer is anticipated and it would basically provide bond coverage. Henry Thomas, Public Resources Management Group, pointed out there is a problem in the operation of the system today, absent the debt, because the water system has been subsidizing the wastewater system but with the 2 MGD being taken back from Sarasota that would not occur next year; some reimbursements from other funds outside the Utility, that were one-time items, were used to balance the budget, so a rate increase would be necessary; the increase would not be driven by the capital expansion.* ***Member White*** *inquired if subsidizing of water and wastewater was customary. Mr. Thomas reported it was not unusual and another option that might be offered to the Board is to increase wastewater rates by 15% and water rates by 3%.* ***Chairman Moore*** *expressed understanding that water and wastewater had to stand alone on their own rates and not subsidize the other. Mr. Thomas indicated the pledge is a combined pledge and the other issue of whether one system could carry another may lean to policy issues, or there may be a legal issue if a wastewater customer who is paying to subsidize sued, but this would not be the only utility in Florida where the water system is making money and the sewer system is not.* ***Member White*** *asked if there are customers on sewer only. Ms. Smith advised some customers receive water from other suppliers, such as Charlotte Harbor Water Association.* ***Chairman Moore*** *opined the County's Utility is in terrible shape and $68 Million will not be enough to fix the problems and requested more information on projected plans. Mr. Schlobohm stated he would get with* ***Chairman Moore*** *to explain the full details.* ***Member White*** *inquired how much of the revenue was debt service. Ms. Smith indicated she would furnish* ***Member White*** *a slide reflecting allocations of collections from the average customer. Terry Kesner, Assistant Utilities Director, advised the projected budget for FY07 in water and sewer* *revenues is $60 Million and $16 Million is spent annually for debt service.*

7. Murdock Village Financing Update.

a. Status of short-term financing/Bank of America Commercial Paper.
b. Long-term approach.

Member White *explained loans exist for $5 Million, $31.3 Million, and $46 Million, totaling $82.3 Million; two of the loans are with Bank of America and one through the Florida Commercial Paper program; the loans are short-term, annual renewals, and are due for renewal June 30, 2006.* **Member White** *advised requests will be placed on the Board's agenda for the second meeting in May to approve rolling the current loans and for additional borrowing of $10-$11 Million.* **Member White** *stated as a long-term approach, once the developer is selected, an agreement negotiated with the developer, and developer funds begin flowing to the County, the County would be in a position to do some long-term borrowing and establish a permanent debt schedule based on estimates of developer revenues, TIF Revenues, and debt service.* **Chairman Moore** *requested a projection of long-term rates.* **Member White** *indicated that information has not been prepared but it would be long-term not a tax-exempt issue. Mr. Akers indicated most of the debt would be taxable and the rates a little higher and estimated possibly in the 6.50% or 7% range, 1% - 1.35% higher than tax exempt bonds.*

8. Other short-term financing proposals.

Florida Local Government Finance Committee Pooled Commercial Paper Loan Program/Status
Public Works Projects/Schedule

Member White *indicated this item is an update on the Florida Local Government Finance Committee Pooled Commercial Paper Loan Program, which is a program the County uses as a credit card for short-term borrowing.* **Member White** *reported the information in the packet reflects the amounts borrowed with outstanding balances, all have designated sources for payback, and the County will be borrowing additional funds for Public Works projects. Raymond Sandrock, Budget Director, indicated as Public Works goes through the budget process, it anticipates*

MSBU assessments and some borrowing for major road projects that would be secured by impact fees. Mr. Sandrock stated the total is estimated at $81 Million contingent upon MSBU processing. ***Member White*** *advised this is a convenient way for the County to get money like this because there is basically no expense, it is tax exempt, and the rate on these funds is slightly below 4%.* ***Member White*** *explained although monies have been specified to pay these loans, there is no formal financing and the money can be obtained in 30-45 days; but because of that, the County will not have the revenue sources that are pledged in the credit market; in other words, all of the non-ad valorem revenue sources are pledged toward the debt as an ultimate backup plan and there is a limit to the non-ad valorem revenue source pledge.* ***Member White*** *stated that the County is nowhere near the limit, but the problem is that the Bank of America loans for Murdock Village, the $80,000,000+, are also using that pledge, and borrowing from this program is stressed because a lot of the County credit card capacity has been used up; once a long-term arrangement is made with Murdock Village and a bond issue has been done, pressure will be released and the program may be used has it was previously. Mr. Sandrock inquired if the full amount was needed as early as this fall and if would there be difficulty because of the Murdock Village loans.* ***Member White*** *indicated if the entire amount were to be needed at one time, it would be sufficient for a bond issue.* ***Chairman Moore*** *inquired about notification when the limit was reached.* ***Member White*** *said that would obviously be when no additional funds would be loaned; there is still borrowing capacity, but if $50 Million were needed in 30 days it could not be gotten from this program at this time.* ***Member White*** *stated he anticipates the Murdock Village matter to be resolved and the pressure relieved.* ***Chairman Moore*** *asked what happens if the County gets to a point the funds could no longer be obtained.* ***Member White*** *advised if the County gets to a point it could not get the loan, it would need to slow down on projects or do some inter-County borrowing from other County funds but currently, there is not a panic situation.*

9. Environmental Lands General Obligations Bonds Referendum.

Member White *advised there was a referendum proposed for the November 2004 ballot to authorize borrowing for the purchase of environmental lands based upon a general obligation ad valorem millage; the Board elected to pull that off the ballot after*

Hurricane Charley; and staff is now ready to proceed. James Thomson, Director of Environmental-Extension Services, indicated several scenarios were reviewed for funding; staff is considering bonding for the purchase of the lands; the County is partnering with the Nature Conservancy, which polled County residents with favorable results; and staff is asking for guidance and direction on bonding and what amount of money is appropriate to bond for the purchase of the environmental lands. ***Member Loucks*** *indicated choices were to put it on the ballot or the spin-down rule if the bond capacity is available.* ***Member White*** *advised the spin-down rule could be avoided by targeting the property, negotiating the prices, executing sale agreements and buying the properties; using the Commercial Paper Program for the $10 Million here and $5 Million there until the total accumulated is $45 Million; and then do a bond issue backed up by the voted obligation. Mr. Akers explained the difference between a General Obligation Bond and Limited General Obligation Bond. Mr. Giblin indicated this issue would be a Limited Ad Valorem Bond not a General Obligation Bond.* ***Member White*** *pointed out the referendum in question stated Limited General Obligation.* ***Member Loucks*** *clarified that all ad valorem must be referendum approved. Mr. Giblin reported this is a difficult program to put together because there is a lot of lag-time in identifying properties to be purchased and it is best to have a bank line of credit or the Commercial Paper Program to help fund and bundle some of the early parcels. Mr. Thomson explained staff is requesting the Board put together the referendum and spend some money on promotional material; the financing will be discussed over the next few weeks; and staff will return to the Board with a final referendum outline.* ***Member White*** *advised this is just to put the Finance Committee on notice of a potential borrowing need. Mr. Thomson summarized the questions asked during polling and indicated an average property value of $160,000 with $25,000 homestead exemption was used. Mr. Thomson reported the target area is the same as in 2004 and the amount would be $50 Million over a 10-year program.* ***Member White*** *stated this does not include finance carrying costs, interest, and issuance of bonds; and indicated Mr. Akers could do some calculations to help with this, but at this time Mr. Thomson is just providing information. Mr. Akers requested clarification on some of the programs only permit the millage to be used for debt service. Mr. Giblin confirmed that neither proceeds of the bonds or the millage collected above the $10,000,000 cap could be used for operating expenses for the environmentally sensitive* program; and explained when the tax bills go out, there is a line item that says this is tax millage for General Obligation bond issues that were approved under a certain referendum and it must be used for debt service. **Member Loucks** clarified that millage collected over the cap cannot be used for operational expenses but if under the cap, the monies can be used in various areas. **Member White** recalled a time when Collier County started collecting millage and raised so much money they decided not to borrow the money. Mr. Giblin explained Collier County was one of the counties that collected tax early on thinking it would be easy to acquire the parcels, then got bogged down in the program with a lot of money in the bank, all from millage collected above the $10,000,000 Cap, and it got a little awkward being in a situation of trying to determine what to do with the money. **Member Loucks** inquired if it must be bonded. Mr. Giblin stated technically it should be bonded; the question Collier County had was if it could be used on a pay-as-you-go basis, and the problem with that is the monies were collected above the cap, the taxpayers were told it was for debt service, and there was a collection of debt service; there are some legal issues, and it created political issues in explaining why ad valorem taxes were collected but not used for debt service for a long period of time. **Chairman Moore** questioned the public support. **Commissioner DeBoer** stated he was not certain; he does not consider it to be an unbiased survey; and it was a stratified survey not a random survey.

10. Adjournment

MEETING ADJOURNED: 3:35 P.M.

Thomas G. Moore
Chairman

ATTEST:

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

By ____________________
Deputy Clerk

djn/gm