MEETING OF THE FINANCE COMMITTEE

August 14, 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 were present: Vice Chairman Matthew D. DeBoer, Clerk of the Circuit Court Barbara T. Scott, County Administrator Bruce D. Loucks, 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, Assistant County Attorney Marty Burton, Assistant County Administrator Roger Baltz, Minutes Supervisor Diane Nice, Deputy Clerk Gail Manley, with Senior Vice President of Stifel Nicolaus and Company, Inc./Hanifen Imhoff Division (Financial Advisor) Gary Akers, Nabors, Giblin & Nickerson (Bond Council) Steve Miller, Raymond James & Associates, Inc. (Bond Underwriter) Henry Reyes, Raymond James & Associates, Inc. (Sr. Managing Underwriter) John Forney, and Public Resources Management Group, Inc. (Rate Consultant) Henry Thomas. ***(Chairman Moore was not present for the meeting.)***

1. Call to Order

Vice Chairman DeBoer *called the meeting to order at* ***2:05 P.M.***

2. Introductions

Vice Chairman DeBoer *requested introductions and all attendees introduced themselves.*

3. Approval of Finance Committee Minutes - April 24, 2006.

MEMBER WHITE MOVED APPROVAL OF THE APRIL 24, 2006 FINANCE COMMITTEE MINUTES, SECONDED BY MEMBER LOUCKS AND DECLARED UNANIMOUS.

4. *Discussion of Utility Rates Increase Proposal/Recommendation*

Utilities Director David G. Schlobohm explained Charlotte County Utilities (CCU) will propose a rate increase based on a rate study completed by the Financial Consultant. Henry Thomas, Public Resources Management Group, Inc. and Rate Consultant, indicated most members of the Finance Committee and Board have seen the rate study and the presentation before the Finance Committee will be the same given to the Board. Mr. Thomas summarized the purpose of the study, financial forecast results, rate design issues for conservation rates and connection fees, and conclusions. Mr. Thomas stated the goal is to develop rates that meet projected expenditure requirements of water and wastewater systems and concluded, at this juncture, water rates have been more than sufficient and have supported the wastewater system. Mr. Thomas provided two alternatives to allow each system to stand alone in terms of rate increases and bear its full revenue requirements or increase the same percentage across-the-board for water and wastewater systems. Mr. Thomas advised proposed rates are based on cost of service principals designed to promote conservation of water resources and comply with rate covenants as required by outstanding loans. Mr. Thomas pointed out capital needs would not be met out of minimum rate covenant requirements but projections reflect more than substantial and stated those monies would be needed for rate-funded capital.

Mr. Thomas explained Financial Forecast Objectives for system revenues are based on recent growth patterns, with expectations of strong growth in the next 5 years, a forecast of system operating expenditures needs, which include new employee additions, wage increases, inflation for fuel, miscellaneous cost increases, and reserve balances. Mr. Thomas pointed out the proposed rate increase included funding capital needs and concluded over $8 million in Reserves may be necessary, particularly to fund a lot of R & R needs that are in the 2007 capital budget, and even though CCU is pre-cash strong but cash flow poor, monies may not necessarily be used to meet covenant requirements which are cash flow oriented based on each year's financial picture. Mr. Thomas referenced the 2006 utility budget that was balanced due to an oversize facility payment from the Peace River Water Authority (Authority) of $3.8 million and an inter-fund loan from CCU to the County's health care *system; and reported the two revenues accounted for almost $8 million and balanced the budget from a cash standpoint.*

Mr. Thomas explained the two-tier coverage requirement under the A test, $1.10 must be available to pay for every dollar of senior lien debt service whereas the B test allows the use of capital connection fees and revenues that are development driven. Mr. Thomas advised his recommendations are hinged on meeting the $1.10 A test because he cannot recommend the County count on impact fees and future development to meet its coverage requirements.

Mr. Thomas indicated the study evaluated funding the Capital Improvement Financing Plan and a lot of capital connection fees are being used to do the expansion-related projects; there are about $67 million worth of capital projects to be financed; a comparison was made of the current debt service, less developer revenues such as the pre-guaranteed revenues, and divided that by the number of Equivalent Residential Connections (ERCs) and then the same comparison was conducted for the end of the forecast period when the debt is fully online from all the expansions; and explained the debt per ERC declined due to collection of the Accrued Guaranteed Revenue Fee (AGRF) and the projected 14,000 new ERCs. Mr. Thomas advised the proposed rates will satisfy rate covenant requirements and meet the County's capital funding goals and reported, pursuant to the CIP for FY 2006 through 2011, Water System Capital Projects total $129,447,722 and Wastewater System Capital Projects total $221,519,324; the study is split into funding from Renewal and Replacements and maintenance projects as well as funding from grants and assessments including MSBU revenues for system expansion for the projected 14,000 new customers with remaining expansion projects funded from either connection fees or new debt.

Mr. Thomas opined more of a rate increase should have been done last year; explained that under the stand-alone option for each system, the wastewater system would need a 16% increase, followed by a series of 6% increases to allow a more inflationary-based rate increase by the final year in the plan and the water system would need a 4% increase followed by a series of 3% increases. Mr. Thomas stated even though the water system is in a strong position, a big cost impact in 2007 will *result from the County's assumption of the 2 million gallons per day (mgd) allocation previously sold to Sarasota County and pointed out the County will be able to absorb it and only increase water rates by 4%.*

Mr. Thomas recommended the Board consider a rate increase based on the across-the-board option e.g. the 9% increase in 2007 for each system with subsequent 4% increases with a return to an inflationary 3% increase in the final year as shown on pages 8, 9, and 10 and reviewed some of the details for each system including revenues generated from the proposed rates.

Mr. Thomas referred to the Rate Design Section on page 12 and stated two sets of rates were designed and in both sets, rates became more aggressive above conservation aspects. Mr. Thomas stated the rates were designed to discourage potable water use for residential irrigation and comply with structures promoted by the Southwest Florida Water Management District.

Mr. Thomas explained page 13 reflects three usage categories per month and the percentage rate under the current method of 0 - 10,999 gallons at 100%, 11,000 - 15,999 gallons at 125%, and 16,000 gallons and above at 150% versus the proposed method of 0 - 5,999 gallons at 100%, 6,000 - 10,999 at 115%, 11,000 - 15,999 gallons at 145%, 16,000 - 25,999 at 165% and 26,000 and above at 190%. Mr. Thomas explained the comparison of Charlotte County's existing rate tiers and adjusted conservation tiers to Sarasota, Manatee, Hillsborough, Lee, Collier Counties, the City of North Port, Greater Pine Island Water Association, and Bonita Springs Utilities, Inc. usage that indicated most have a rate increase that is pretty significant beyond the 20,000 gallon usage.

Mr. Thomas reported page 15 shows impacts of the stand alone and across-the-board rate designs using the residential water rate for the 5/8" x 3/4" meters; the 5,000 monthly gallon level is circled because that is an average bill of $37.13; under the stand alone the average water bill would increase by $1.25 to $38.38 whereas the across-the-board rate would increase by $3.12 to $40.25 per month; and explained the column to the far right represents a cumulative affect depicting approximately 70% of customers are billed for 5,000 gallons or less per given month. Mr. Thomas stated page 16 represents the bill comparison for wastewater rate increases; the current wastewater bill of 5,000 *gallons is $38.49 versus the proposed increase of $6.17 per month for a total of $44.66 for stand alone and a $3.49 increase for a total of $41.98 for the across-the-board. Mr. Thomas advised page 17 is a combination of water and wastewater current and proposed increases for stand alone and across-the-board; pointed out CCU has significantly more water than wastewater customers; and for customers who have both services, the increase would be approximately $7.40 per month under the stand alone alternative and $6.61 per month under the across-the-board; and 70% of the bills are at that level or less.*

Mr. Thomas reported details set out on page 18 support the prior table, the increase in the CCU service area customer charge is $.13, $1.12 for the water charge, and $6.17 for the sewer charge for a total monthly increase of $7.42 or a 9.8% increase for a total $89.04 annual increase. Mr. Thomas explained page 19 represents across-the-board instead of stand-alone so the water rates under the proposed rate increase are a little higher than the previous one and the wastewater rates are a little lower. Mr. Thomas posed the options as either a sewer system major rate increase or an across-the-board increase and a rate that would promote more conservation and reflect higher bills for larger users.

***Member Loucks** inquired if all the tables include conservation pricing as part of the increases in water and wastewater bills. Mr. Thomas replied affirmatively. **Member Loucks** clarified customers that presently use 5,999 gallons would pay 100%, 78% of customers would not be penalized for excessive water usage, and 21% of the customer base falls in the category of people who use between 6,000 - 26,000 gallons of water. Mr. Thomas agreed and added 99% of users use 25,000 gallons or less.*

***Member White** inquired if the across-the-board option on page 7 was an 18% or 9% increase. Mr. Thomas explained that it was averaged for a 9% increase. **Member Loucks** asked how this compares by population breaks to other communities. Mr. Thomas stated the table on page 14 shows the breaks, in general Charlotte County rates are high compared to other communities; and rates would also be high at the conservation level but that is a function of the overall cost. Mr. Thomas advised connection fees have not been reviewed or re-established since 1996, some fairly significant increases in connection fees are* *being recommended, and these revenues are restricted to pay for capital needs and new growth.*

Mr. Thomas reported page 22 shows the difference between existing and proposed connection fees on water and wastewater impact fees; Charlotte County is unique in that it has two levels of impact fees; most developers only pay the supply and transmission fee as shown on the first two lines of the chart; and distribution fees come into play when it is a County line that has already been extended and an infill customer, who is usually a lot owner, connects to an existing line. ***Member Loucks*** *pointed out distribution fees are reimbursed for up to seven years to whomever front-ended the costs.*

Mr. Thomas pointed out a developer would pay, under the proposed connection fees, an increase from $1,213 to $1,620 for water and an increase from $2,090 to $3,100 for wastewater. Mr. Thomas stated this is critical to funding, particularly for sewer expansion projects and indicated the sewer increase is fairly significant based on the cost of new capacity necessary to meet growth demands.

Mr. Thomas commented on the proposed AGRF as set out on page 23; recommended elimination of the guarantee revenue fees and extension for collection of the AGRF based on carrying costs associated with reserved capacity; and explained the fee would be recalibrated to reach the maximum fee in five years.

Mr. Thomas explained page 24 is a comparison of monthly charges of connection fees for single-family residential customers with numerous counties, cities, and entities; concluded Charlotte County is well within the realm of reasonableness; indicated many utilities are conducting rate studies; Collier County is the most recently affected; and its new capacity costs are shown at the far right-hand side of the chart.

Member White *asked if there was a similar chart for user fees. Mr. Thomas stated it was in the rate study, offered to provide a copy, and indicated that it does not paint a good picture.*

Mr. Thomas reviewed the Discussion and Recommendations shown on page 25 and indicated the Board, during the public hearing, would be asked to select either across-the-board or stand-alone *rates, approve the connection fees, AGRF, and other miscellaneous fees and charges associated with the rate ordinance.*

Mr. Thomas stated the Board would be requested to adopt rate increases over the five-year period because 1) a bond refunding action may be needed in the fall and 2) an additional bond issue in the future is anticipated; recommended, in order to get the best possible ratings and insurance premiums on this debt, that the five-year rate increases be incorporated; and pointed out the Board would still have the discretion to modify them.

***Member White** questioned the likelihood of complying with rate coverage requirements without the rate increase, regardless of refunding the bonds. Mr. Thomas explained based on the current budget and capital plan, if no rate increase is done, the level would be approximately 97% coverage out of a 110% which would fail the test. **Member Loucks** asked if that includes the rate stabilization account. Mr. Thomas stated consideration was not given to use of the rate stabilization account and explained if the rate stabilization account is used, the test would be met with a small increase but those funds would no longer be available. Mr. Thomas said compliance with the coverage requirements would reduce funds to a level that would not be sufficient for R&R or departmental capital; if rates are not increased enough, reserves would be reduced; and indicated some kind of increase is necessary because without it the County will not comply with coverage requirements.*

***Member White** requested the date the County would be in violation of bond coverage if no rate increase is done. Mr. Thomas advised the County would make the "B" test in 2006 based on the amount collected from impact fees but would fail in 2007. Mr. Reyes asked if the 2007 analysis took into account the projected savings from the refunding of the 1996 bonds. Mr. Thomas stated no because those savings were not built into 2007 when the rate study was done but those savings were considered in the scenario for the bond feasibility study; with the savings from the Swaption, the increase would probably be reduced from 9% to 8%; and pointed out the Swaption would probably not be able to be done unless a rate increase is enacted. **Member White** indicated the County is contractually obligated to sell the variable rate* *bonds on October 1, 2006 and even if no action is taken, the bonds will be sold unless the market would not allow the sale.*

Mr. Miller stated another option would be to terminate the Swaption, pay the money, and find another source and estimated the termination payment would be about $1.5 million. ***Member White*** *advised up front $1.2 million went into rate stabilization. Mr. Forney explained the projected refunding of the 1996 Series, termination of the Swaption, would produce about $600,000 in savings in 2007 because it is being taken in the first year which is about equal to the total present value incremental savings from the refunding. Mr. Miller said that would help phase in the rates because all of the savings were put in year one. Mr. Forney stated that was done intentionally to soften the projected rate increases and with coverage you would get another 1.5% or 2% off the required rate increase in total production.* ***Member Scott*** *requested verification that rates would not have to be increased until next fiscal year. Mr. Akers stated that rates would not have to be increased until next year but it would be difficult to issue bonds because a forecast of debt service coverage is required in the Official Statement (OS) and from what Mr. Thomas said it would be difficult to show debt service coverage under the current rate structure. Mr. Thomas recommended the rate stabilization fund not be used because there is limited benefit and it is very difficult to get the funds back. Messrs. Akers and Miller expressed concern with the projections of coverage in the OS if there is no rate increase. Mr. Miller said using the rate stabilization would be recognized as a negative.*

Mr. Thomas pointed out that almost $13 million in capital has been budgeted for 2007 that is associated with Renewal & Replacement (R&R) for lift stations, etc.; the $8.8 million in reserves is not rate stabilization revenues; if used in the first year to phase this rate increase in, it would mean that the cash position would decrease from $15 million or $18 million to about $6 million; and without using those reserves, massive rate increases would be necessary. Mr. Miller commented on the limit on how much of the rate stabilization can be used in any one period. ***Member Loucks*** *inquired if increases in water costs from the Authority have been calculated into the proposed rate increases. Mr. Schlobohm replied affirmatively as projected. Mr. Thomas stated the new debt-related base charges are known* *but he had to estimate Operating & Maintenance (O&M) cost increases as they are done on a yearly budget basis so those were escalated and built into the whole picture.* ***Member Scott*** *expressed concern about the number of people moving from the area; stated increases to rates and taxes must be stopped; and opined every department should streamline their budgets.* ***Member Loucks*** *asked what portion of the rate increases are for maintenance and what portion for capital versus the debt coverage. Mr. Thomas stated no rate increases were assessed in 2006 and $32,269,000 of $41,620,000 would cover operating costs including the purchase of water but no debt or R&R funding.* ***Member White*** *asked if it included capital outlay. Mr. Thomas clarified this is just cash and under current rates, the revenues total $41,620,000 with operating costs of $32,269,000 or 77.5% and the purchase of water.* ***Member Loucks*** *inquired about the remainder percentages for debt, capital and rate revenues.*

Mr. Thomas explained that not many capital R rate revenues in 2006 were funded and it was all out of reserves. ***Member Loucks*** *inquired if it was in connection fees. Mr. Thomas stated that everything done from reserves was from connection fees. Mr. Thomas opined even eliminating all new employees from the budget, a rate increase would be needed without using the rate stabilization fund and it would be tight even if the rate stabilization fund is used. Mr. Reyes stated the requirement on the rate stabilization fund is 10% maximum of net revenues can be transferred in. Mr. Thomas stated the projected amount available is $1.5 million and not the entire $2 million. Mr. Reyes agreed and stated there may still be a shortage. Mr. Thomas explained his report was based on using the full $2 million; operating reserves are being drained significantly; the budget was balanced last year due to the almost $8 million of one-time revenues that are not available now; and indicated that when the books are closed in 2006, coverage will barely be met because those monies were spent on capital. Mr. Akers commented on the uneasiness in the last couple reviews; rating agencies recognize that coverage is getting slim and that some of the surplus revenues are being used up; and to just scrape by using the rate stabilization fund could have an adverse impact on ratings.* ***Member Loucks*** *asked if that would be the case with the purchase of insured bonds. Mr. Akers stated insurance commitments exist on the current bond issue and if there was an* *adverse affect on the ratings, it could result in an increase of insurance premiums. Mr. Akers commented on the importance of the County maintaining Moody's A-2 rating, which is a middle-A category, and a Standard & Poors A-, which is the minimum pay category, to alleviate the County from being put on a credit watch or a possible down grade in rating. Mr. Akers recommended the County consider the impact on bond issue ratings.*

Mr. Thomas pointed out changes have occurred in the County's current utility customer mix e.g. the Rotonda system customers have actually seen a rate decrease; the Burnt Store customers were part of a best revenue utility system and have been rolled into the County rates; and by giving them the benefit of County rates a lot of customers' bills have gone down in recent years. Mr. Thomas expressed uncertainty regarding rates of customers previously served by Rotonda, Burnt Store, and Florida Water Services facilities but he believes all had higher rates than the County; all are now at County rates; and the systems are better maintained.

***Member Loucks** advised he is comparing the stand alone to across-the-board on pages 15, 16, and 17; there are about 55,000 water customers and slightly less than 30,000 sewer customers; inquired regarding the use of a 30% weighted average for $1.25 and 70% for $6.17; and confirmed that 9% is the weighted average number. Mr. Thomas replied affirmatively.*

*Mr. Thomas pointed out rates in 1996 were not very palatable; the County did a series of rate decreases; and these proposed rates are essentially the same as the 1996 rates. **Member Loucks** concluded the $82.23 on page 17 is the combined rate from 1996. Mr. Thomas advised that it was lower at $80.41.*

Member White** explained a contractual relationship was entered into three years ago that brought in $1.2 million, which was like getting savings up front on the bond refunding and it gave the counterparty the right to refund the bonds for the County or compel the County to sell on October 1, 2006. **Member White** stated the counterparty has elected to sell the variable rate bond but because of market conditions, we can now increase our savings another $600,000 by terminating the transaction and selling fixed rate bonds, which is the current process, and scheduled on the August 22, 2006 Board agenda. **Member White

inquired as to the impact on the bond issue if there is no rate increase and the status of the issue the County is contractually obligated to do because the County took upfront savings. ***Member White*** *pointed out the existence of the rate stabilization fund and requested clarification on the impact on the County's rating by bond officials for five years when the County would be in a position to comply with bond covenants in 12 to 13 months but not without a rate increase and possibly not comply with covenants in years two, three, four and five. Mr. Reyes stated the County is obligated to the first refinancing since a $1.2 million savings was received up front plus earned interest. Mr. Miller indicated he does not recall language in the Swaption documents about rating downgrades but that might be the next step.* ***Member White*** *asked why a rating downgrade would occur now. Mr. Miller expressed uncertainty on how rating agencies would react to not having done a rate increase after issuing bonds.* ***Member White*** *inquired if there is a possible scenario wherein the variable rate bonds would not be issued. Mr. Reyes stated if there is a rating action precipitated by the County not approving the recommended rate increases and if a subsequent rating action is taken, it is possible the Swaption documents may include provisions to enable the counterparty to take action. Mr. Miller explained when the debt service is the same as it would have been, there are assumed parameters for the letter of credit, etc. and it may turn out that letter of credit and fees are higher because of the situation. Mr. Akers agreed.*

Mr. Akers advised the liquidity provider has language that basically says if a downgrade occurs, the fee would be higher. Mr. Reyes pointed out banks are involved in variable rate transactions and typically more sensitive than capital markets. Mr. Reyes stated the fixed rate transaction would replace the Swaption, there are no tests the County must meet to issue the bonds because it is a refunding bond issue and does not require the additional bond test. Mr. Reyes indicated a lower aggregate debt service would need to be shown and with regard to insurers and their rating agencies, it is possible that not taking some action may cause insurers to have second thoughts about pricing or commitment.

Member White *stated if no rate increase is adopted now, it does not preclude doing the rate increase on January 1, 2007 or March 1, 2007; he does not see why it would affect the financing; and* *he wants to be certain of potential ramifications. Mr. Forney indicated it might not affect the financing at all and the County could go ahead and do the financing and get the savings without a rate increase. Mr. Akers stated rating agencies and insurers look at numbers in the feasibility report and if nothing happens, then a forecast would be needed without a rate increase.* ***Member White*** *opined the forecast indicates a rate increase will be necessary in the future and if the forecast five years from now shows the need for a rate increase, it should not affect standing, rating, and issuance of bonds now. Mr. Forney advised rating agencies and bond insurers know that it is either test "A" or test "B" probably with connection fees and if the projection shows that test "A" is not being met but test "B" is, the County would be in rate compliance and not in default.*

Mr. Thomas questioned the probability of higher rates for the fixed rate refunding, even though the deal would still be insured, if the County were still in compliance but placed under a credit watch and a downgrade and pointed out higher rates would erode into the $600,000 present value savings. Mr. Akers advised assumptions were made based upon financial information and the current rate study being done but the commitment could be pulled if there was a downgrade.

Mr. Reyes requested the status of connection fee collections. Utilities Fiscal Manager Debra Smith indicated collections have been down. Mr. Reyes pointed out 20% coverage of debt service would be $2.6 million of connection fees and if the County were to meet the test easily next year for connection fees, the County would be in compliance with bond covenants and the either/or test right now should not be at issue. Mr. Reyes stated with that kind of coverage projected from connection fees, there is a lot of room for disappointment on the down side of those numbers while still in compliance on the "B" test. ***Member White*** *stated he wants to be certain the County would still be in a position to achieve the additional savings based on the market. Mr. Thomas stated that is realistic through 2006; operating expenses usually increase faster than revenues; and commented on the historical table in the Preliminary Official Statement (POS) report. Mr. Thomas recalled two rate decreases of 3.72% and 2%.* ***Member White*** *stated the net revenue* *available for debt service over the last five years decreased 12% and operating revenues increased 31%. Ms. Smith concurred.*

Mr. Thomas stated one of the big hits in 2007 will be the cost to purchase the additional 2 MGD from the Authority that was allocated to Sarasota County and the impact to the net revenue will be several million dollars. Mr. Thomas stated that cash balances are good but cash flow is getting to the level when the rate policy should be evaluated. Mr. Reyes inquired if Mr. Thomas is assuming a bond issue for capital improvements in three years out. Mr. Thomas indicated the debt would be coming on in 2010 based on a 2008 issuance but that is contingent upon growth continuing to occur at the present rate; there are four sewer plants under expansion and at least three must be done in the next couple years; consideration was given to elimination of the water capital program versus the County staying with the Authority as the full requirement supplier; the next incremental plan has not been factored in at this stage; and the County may be able to squeeze by in the next few years based on current commitments from the Authority. Mr. Thomas pointed out total project costs were $67 million that will be necessary to finance for 2008 even though it is for the whole five-year period.

***Member Loucks** concluded the rate increase would be sufficient for projects that need to be addressed including the increase for the Authority debt but the operating costs will not be known until after the start of operations. Mr. Thomas explained an estimated allowance has been factored in. **Member Loucks** pointed out costs are rising; some level of expansion will be done on the Burnt Store, Englewood, Rotonda, and East Port facilities; and these sewer plant expansions would be paid for primarily from connection fees and debt. Ms. Smith agreed. Attorney Burton requested verification that rates were reduced from 1997 to 2001 for the purpose of increasing the customer base. Mr. Thomas recalled he was not involved during that time period but expressed the belief that growth in Charlotte County was stronger and the customer base was close to original projections, the fixed costs were not changing, and portions of revenue requirements per customer were declining.*

***Member White** asked for the sale date in order to have the funds by October 1, 2006. **Member Loucks** advised the rate increase is not dependent upon selling of the bonds. **Member White** suggested* *placing this items on the August 22, 2006 Board agenda and questioned the need to disclose the rate increase on the POS or the OS. (Discussion ensued regarding the time line for the POS and OS, projections of compliance on A and/or B tests, and rate covenants.)*

(Finance Director Ann Navan was not present for the remainder of the meeting.)

Mr. Akers pointed out rating agencies will not finalize ratings until after official Board action. ***Members White and Loucks*** *commented on the need for consultants to obtain all facts and options for presentation to the Board.* ***Member Loucks*** *pointed out the Board has meetings scheduled on September 12 and 26, 2006.*

Mr. Akers suggested submitting proposals with and without the rate increases to rating agencies in order to ascertain their positions. ***Member White*** *advocated delaying the Committee's recommendation if the item is not to be placed on a Board agenda until September in order to gather additional information and discuss alternatives.* ***Member White*** *stated if doomsday circumstances existed, he would recommend the rate increase because he does not want to default on existing bonds.*

Mr. Reyes posed a question as to the County's ability to pay the termination payment, if rates stay low, and be reasonably assured that savings could be recouped by doing the fixed rate bonds after terminating the swap and suggested the information be provided in the next two weeks.

Member Scott *concluded if a rate increase is necessary, it will have to be done but review and research should be conducted to ascertain ways to cut County government budgets.* ***Member Loucks*** *requested direction on whether the Committee's recommendation is for the proposed rate increase or refinance.* ***Member White*** *opted for the rate increase and pointed out no discussion has been held on refinancing.* ***Member White*** *opined projections made today are reasonable regarding the situation including revenues and expenditures but it may be necessary to re-evaluate the situation in two years and indicated he would compare the situation that existed in 2003 to the current situation.*

MEMBER WHITE MOVED FOR APPROVAL FOR THE FINANCE COMMITTEE TO RECOMMEND THE PROPOSED RATE INCREASES FROM THE RATE STUDY TO THE BOARD WHEN IT IS SCHEDULED ON THE AGENDA. ***Member Loucks*** *requested clarification on the motion for 9%.* ***Member White*** *expressed a preference for the stand-alone although either of the rate increases would get the job done. Mr. Thomas said the stand-alone would hit the combined customers more.* ***Member White*** *changed the motion for the across-the-board rate increase.* ***Member Scott*** *recalled there are more stand-alone than combined customers. Mr. Thomas added the utility has about 55,000 water customers and about 30,000 sewer customers, the stand-alone rate increase would help water customers because those customers would pay more under the across-the-board increase.* ***MEMBER LOUCKS SECONDED THE MOTION. MEMBER WHITE CONFIRMED THE MOTION INCLUDES THE ACROSS-THE-BOARD RATE INCREASE.*** ***Member Loucks*** *indicated a preference for the stand-alone from an accounting perspective to keep separate systems but it is common practice for one system to subsidize other systems.* ***Vice Chairman DeBoer*** *asked* ***Member White*** *to re-state the motion.*

MEMBER WHITE MOVED APPROVAL FOR THE COMMITTEE TO RECOMMEND TO THE BOARD TO ADOPT THE RATE STUDY PROPOSALS USING THE ACROSS-THE-BOARD OPTION ON WHATEVER MEETING AGENDA THE ITEM IS PLACED, SECONDED BY MEMBER LOUCKS.

Vice Chairman DeBoer *asked if it was normal practice for the Committee to recommend to the Board to approve or disapprove increases and decreases in rates and when was the last time it was done.* ***Member White*** *said this is a first.* ***Member Loucks*** *questioned the inappropriateness of the Committee to have this discussion prior to that recommendation or should the Committee focus on the need for refinancing.* ***Vice Chairman DeBoer*** *said that is difficult for him to answer because he is not certain who was in such a rush to get the validation.* ***Member Loucks*** *explained the topic was brought before the Committee on the context of future capital needs, debts, and coverage issues.*

Member Scott *indicated if the Committee does not make the recommendation, then* ***Member Loucks*** *would have to present rate increase scenarios to the Board.* ***Member White*** *said the matter will be placed on the Board's agenda and discussion today is to determine if this Committee has a recommendation.* ***CALL ON THE MOTION: 3:2 WITH VICE CHAIRMAN DeBOER AND MEMBER SCOTT OPPOSING.***

5. ***Refinancing Update***
   - ***Charlotte County Utilities***
   - ***Murdock Village***

Member White *referenced the two-page handout prepared by the underwriters on the current and proposed structures of the May 3, 2003 Swaption with Bank of America and termination of the callable Series 1996A bonds for a fixed rate option.*

John Forney, Raymond James and Underwriter, advised the refunding transaction would be a positive since it would help reduce the amount of the rate increase to meet coverage requirements because it would provide over $600,000 in savings in fiscal year 2007; there is some uncertainty of the need for a rate increase to do the refunding but it would reduce the risk profile of the County and save the County money as shown in the handout; recalled interest rates were very low in 2003 and a lot of people were looking for ways to save money by refinancing home mortgages and counties were doing the same with outstanding bond issues; the County's outstanding bonds were issued in 1996 with higher interest rates with a call date of October 2006; stated techniques were available to allow the County to do "synthetic" refunding of the bonds and locking in a savings via a Swaption wherein a counter-party made a payment to the County that resulted in a $1.2 million or about 4% upfront savings; rates have increased and the County has an opportunity to do even better; although some risk exists because the County would have to exchange payments with a counter-party for the next 20 years or the bond term, this is something that makes a lot of sense for the County to do from a financial standpoint because it saves more money and reduces risks.

Member White *explained the Board acted on this transaction in May when the Swaption termination was approved and direction was given to move forward with the fixed rate financing and advised an item has been placed on the Board's August 22, 2006 agenda to approve the bond resolution and appropriate actions to sell the bonds.*

Vice Chairman DeBoer *requested the reduction in the rate increase that would be attributed to the $600,000 savings. Mr. Thomas estimated approximately 1% based upon the combined rates.*

***Member White** reported he placed the Murdock Village item on the agenda for a status update and advised the $86 million and $5 million loans have been consolidated. **Member Loucks** indicated staff is negotiating a developer's agreement to bring back to the Board in September 2006.*

6. Other Items - None

7. Adjournment - 3:45 PM

Tommy Q. White
Chief Deputy Board Services

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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