

MEETING OF THE FINANCE COMMITTEE

December 17, 2010

A meeting of the Finance Committee was held at the Murdock Administration Center, County Attorney's Conference Room, Room 560, Port Charlotte, Florida. The following were present: Chairman Robert (Bob) Starr, Commissioner Christopher (Chris) Constance, Clerk of the Circuit Court Barbara T. Scott, County Administrator Raymond Sandrock, County Attorney Janette S. Knowlton, and Chief Deputy Board Services Tommy Q. White. Others in attendance were Finance Director Ann Larrivee, Utilities Director Teresa Kesner, Minutes, Supervisor Gail Manley, Deputy Clerk Joanne Lansing, County Financial Advisor First Southwest Company Gary Akers, Alex Bugallo and Peter Lamar of Raymond James & Associates, Inc., County Underwriter.

1. Call to Order

Chairman Starr called the meeting to order at **2:00 P.M.**

2. Introductions

Chief Deputy Board Services White introduced Committee Members and the Financial Advisor, explained that Bond Counsel, Tom Giblin, of Nabors, Giblin & Nickerson, was unable to attend, and indicated other attendees are known to each other.

3. Approval of Finance Committee Minutes - March 3, 2008

Member White advised there was a minor correction to the Minutes; the first paragraph, last sentence on page 92, Book 1, should read "\$10 million in cash would be necessary, not \$100 million as is currently stated."

MEMBER WHITE MOVED APPROVAL OF THE MARCH 3, 2008 FINANCE COMMITTEE MINUTES, WITH CORRECTION TO PAGE 92, BOOK 1 AS NOTED ON THE RECORD, SECONDED BY MEMBER KNOWLTON AND DECLARED UNANIMOUS.

4. Refinancing of Selected Utility Debt Issues

Member White advised that the County Financial Advisor, Underwriter, and himself in an ongoing continuous effort are always looking for ways to hold down Utility rates and look at

potentials of reducing rates and take advantage of refinancing opportunities, and that refinancing of selected utility debt issues is one that has been identified. **Member White** stated that the goal today is to get a recommendation from the Finance Committee to present to the Board of County Commissioners (BCC) to move forward with the refinancing to provide an economic gain in the selected debt issues in aggregate and provide other benefits such as an updating of critical bond covenants that benefit rate payers of the utility in the continuous effort to maintain rates or reduce the need in the future to raise rates. **Member White** proposed that this be placed on the January 8, 2011 BCC agenda, which would give all the appropriate parties the authority to begin work, and advised there is no cost incurred until the bonds are sold. **Member White** stated that between January 11, 2011 and February 8, 2011 the work would be done, at which time the BCC would render official approval by resolutions, and that the bonds would be sold toward the end of February 2011 and close the first week of March 2011. Mr. Bugallo gave a presentation based on handout material he provided showing benefits and summarized what is to be accomplished. Mr. Bugallo explained this is current debt outstanding and does not include approximately \$42 million of subordinate debt as footnoted at the bottom of page 1 of the handout, which would not be included in this refinancing. Mr. Bugallo explained refinancing would be for the 2003B bonds and the 2001 bonds. Mr. Bugallo advised that Charlotte County Utilities has \$18 million of outstanding Commercial Paper and an \$8 million bank loan. **Member White** pointed out the \$18 million is short term, said the BCC just approved to renew this about two weeks ago, confirmed that it is a 90-day roll over debt; and indicated this bond issue would pay that off and finance it long term. Mr. Bugallo explained that these were done primarily as interim financing with the intent to take it out to a permanent financing. **Chairman Starr** requested clarification that the \$18 million of outstanding Commercial Paper and \$8 million of Interim Financing Loans would be rolled into the long term bond issue. Mr. Bugallo replied affirmatively and stated these would be tax exempt municipal bonds. Mr. Bugallo indicated page two of the handout summarizes opportunities now based on current market rates, indicated the term would be the same maturity as on the 2003B bonds, which is 2021, stated that the 2001 bond matures in 2026, and that with the proposed refinancing opportunity would be shortened by four (4) years. **Chairman Starr** asked if the debt service would be satisfied after that period of time. Mr. Bugallo replied affirmatively. The group continued to discuss

current market opportunities. **Member White** clarified for **Member Constance** that \$20 million of the other half of the Utilities debt is State Revolving Fund (SRF) loans, which is not paid by all ratepayers but is paid by specific ratepayers who receive the benefit. **Chairman Starr** asked for clarification related to the \$195 million. Mr. Bugallo confirmed that the senior debt service alone is about \$188 million. **Member White** explained debt service includes interest. **Chairman Starr** questioned the rates and whether it is advantageous to take a look at current market rates. Mr. Bugallo clarified the rate is basically 6%, pointed out that is primarily why Raymond James is proposing the refinancing of 2003B's and 2001 at this point, and continued to explain the rate issue in detail. Mr. Akers indicated that the market has been extremely volatile over the last few weeks, mentioned supply and demand, and commented that more investors will be hunting for bonds after the first of the year. **Chairman Starr** agreed the savings are substantial, opined we should take advantage of the situation now, and indicated it is an opportune time to lock in the rate. **Member Constance** expressed his understanding of the proposed refinance, noted the \$180 million was debt service for the utility, and asked what the actual debt was for CCU. **Member White** indicated it is approximately \$190 million, explained the debt service further, pointed out that 4 years will be cut off the life of one of these issues, and suggested the gain number could be higher if the rates improve by February. Mr. Bugallo stated that page 3 gives a background on the 1991 Master Resolution and reviewed some of the priorities and benefits. **Chairman Starr** said we have now demonstrated that we can operate the utility more effectively and efficiently than when the Utility was first purchased. Mr. Bugallo explained the only way to get rid of the initial document is by refinancing over 50% or issuing a new money deal that is above the 50% already. **Chairman Starr** asked what the advantage is to us not putting reserves in and Mr. Bugallo responded. **Member White** explained the reserves process further.

Mr. Bugallo explained page 4, said it shows what the current Utility System's 4 Senior Bond Issues would look like after the refinancing but in keeping consistent with page 1, and provided additional details. **Chairman Starr** asked what the approximate underwriting fee would be. Mr. Bugallo said the total cost of everything would be about \$500,000, but pointed out that all numbers are already netted out. **Member White** explained that a lot of that is the take-down for the actual people who sell those bonds. Mr. Akers said a general rule-of-thumb on a bond

issue is around one-half of one percent of the principal amount and a little higher on thirty year bonds, but since these are short term bonds, the fee could be a little less as far as underwriting. Mr. Bugallo remarked on page 6, said there is a reference included that was previously on the table related to the refinancing of the 2001 and 2003B Bonds and also of the \$26 million; \$18 million of Commercial Paper and \$8 million Bank Loan that would be taken out with permanent fixed rate financing over 20 years. **Member Constance** announced within ten or eleven years we should only have approximately \$30 million to pay off. Mr. Bugallo said it would actually be less than that and explained further. **Member Constance** requested additional explanation of the last entry of Series 2001 with a balloon of \$6,700,000. Mr. Bugallo responded in detail and noted that by 2022 there will only be about \$12 million left of the \$26 million piece and out of the \$12 million you might have about \$25 million of the SRF and Bank Loan. Mr. Akers explained debt tailing off at the end means that you have not been financing a lot of capital improvements and noted when most of these bonds are paid off in 2021 you end up with debt service that goes down at the end. **Member Constance** said he just added up the series 2006, 2003A, 2003B and 2001 and I am getting about \$109 million of principal there; then \$26 million here (Akers said - say \$20 million for the SRF and bank loan by the year 2022). **Member Constance** said I'm talking about right now; I'm trying to get a break down. Mr. Bugallo said it is \$109 million for this series of bonds, \$26 million for this newest package we want to put in; then there is SRF and some other senior debt? Mr. Akers said 2008 and it is \$42 million total principal. **Member Constance** said he gets \$177 million. **Chairman Starr** asked if it would be an advantage to take any of the other debt and include in this. Mr. Bugallo said no because at this time primarily the economics do not make sense to refinance and create savings opportunities without creating a burden from now until that time when the utility system. **Chairman Starr** said his point is we are talking about \$120 million outside of this. **Member White** explained payments were made October 1, 2010 and the amount of \$182 million outstanding, not \$190 million. **Chairman Starr** asked if it was advantageous to put any of that debt into this. Mr. Bugallo said not at this point; that at this point the only deals that make sense to refinance would be the 2003B's and the 2001's. **Member Constance** asked if these were all fixed rate at this point, or which ones are variable. Mr. Bugallo stated that the ones that are variable are the 2003A's and the 2003B's and the interest rate can change up to a maximum of about 6%.

Member White explained the 2003B's won't be variable after we refinance them. **Member White** explained the \$18 million and \$8 million are variable and will not be variable after the refinancing. **Chairman Starr** said this system will basically protect the utility because if you have an extraordinary spike in interest rate on the variables with a debt service of \$70 million there would be a problem. **Member Constance** clarified those issues that are fixed and those that are variable. (Discussion ensued on current rates, which are variable and which are fixed.) Mr. Bugallo explained we are trying to pull it all in at about 4% or less and lock it in. (Discussion ensued on sewer installations and anticipated revenue streams.) **Chairman Starr** said this is a good deal as far as he is concerned.

MOTION MADE BY MEMBER KNOWLTON TO MOVE FORWARD WITH THE REFINANCING AS PROPOSED IN THE PRESENTATION, SECONDED BY COMMISSIONER CONSTANCE, AND DECLARED UNANIMOUS.

Member White stated he intended to put in an agenda item for the January 11, 2011 meeting for the full Board to accept the Finance Committee recommendation to move forward with all players working on it, that it would come back again February 8, 2011 with a final Resolution and a better update of the markets, proposed putting the action to approve the bonds on the regular agenda in February with presentations, and suggested the January 11, 2011 meeting have the Board accept this proposal on the consent agenda, allowing them to pull it and ask questions, and pointed out it is only accepting this committee's recommendation to move forward. **Chairman Starr** asked **Member Sandrock's** opinion. **Member Sandrock** said that is fine. **Member White** said we would put the second action on the February 8, 2011 on the regular agenda. **Chairman Starr** asked is this was a motion. **Member White** said this is a motion, seconded by **Member Constance**. **Member Knowlton** said no motion is required. **Member Constance** said it is likely to be pulled because it is great news and to educate everyone on it so they understand we are working on reductions. **Member White** said he would explain it at pre-agenda.

9. Other Items - **Member White** updated the committee by looking ahead to the next ten months for Public Works and what they might be borrowing and mentioned Marty Simone is showing about \$15 million for three projects, Burnt Store Road Phase I, South Bridge Waterway Dredging and some paving in Tropical Gulf Acres;

that those are generally assessment deals and the money is available from some other source and usually involve some borrowing but are subject to change depending on bids and progress on projects.

10. Adjournment - 2:50 PM

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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