

MINUTES
SPECIAL COUNCIL MEETING
CITY OF NICEVILLE, FLORIDA
MARCH 6, 2014

The Niceville City Council met in special session at 6:00 PM, March 6, 2014 in the Council Chambers, 208 N Partin Drive. All Council members, except for Councilman Henkel who was away on business, and the Mayor were present. Also present were City Manager Lannie Corbin; City Clerk, Dan Doucet a member of the press and visitors in the audience. Mayor Wise called the meeting to order at 6:00 PM.

PUBLIC HEARING

Presentation – Mr Bill Fray, Fray Municipal Securities – 2005 Water/Sewer Refunding Analysis

Mr Fray provided a written analysis document to the City Council and briefed the council regarding the content of the presentation. Mr Fray stated that a portion of the Water and Sewer System Series 2005 bonds were refunded in 2008. He advised that U.S. Treasury regulations for technical reasons permit refunding of the remaining Series 2005 bonds between March 1 and June 1, 2014. He stated the current Series 2005 bonds can be refunded now at a substantial benefit to the City. He advised that bonds or bank loans can be used for this refunding. He stated that bank loans for short and medium term loans have provided lower interest rates and lower financing cost than bonds for several years. Bank loans for the current Series 2005 refunding provide substantial additional interest rate savings and reduced cost compared to bond financing. He explained the steps involved when the need arises to refund a particular bond issue. He stated for the last 4 or 5 years using bank loans is more favorable than bond issues because of the costs savings. He stated banks receive tax exempt income from the bonds; and additional tax benefits called a bank qualified issue when they lend funds to a City that is less than ten million dollars. He stated the City has the option to seek a bond issue or a bank loan. Mr Fray's analysis provides for net savings to the City (Present Value) which includes interest savings and Financial Cost Comparison in the amount of approximately \$180,883 or 1.76 times greater savings with the Bank Loan Option, based on current market rates for bonds and bank loans. Discussion followed.

Mr Corbin stated that there is a potential for bank loans to become taxed and requested Mr Fray explain the background regarding this possibility. He wanted the council to be well aware of this potential before making a decision to select a bond refinancing method or bank loan method. Mr Fray stated that looking at history this will not happen. He stated both bonds and bank loans fall under the same federal statutes. He stated this has been tried in a number of cases, however, failed to gain approval. He further stated that if

this did happen it would apply to new future loans at the time legislation changed as of a certain future effective date and would make our issue grandfathered in. Mr Fray continued his overview of his handout information. The council had asked a number of questions based on the presentation provided by Mr John Mazyck of the Frazer Lanier Company during our Regular Council Meeting held on February 11, 2014.

Mr Fray stated the questions asked and provided responses to those questions:

Q1. You say that there is a refinancing cost (Bonds = \$94,600, and Bank Loans = \$35,000) but is there also a cost to call in the existing Bonds?

Often there is a "call premium" when bonds are refunded. The 2005 Bonds have no call premium however. (This can be found near the bottom of page 5 of the 2005 Official Statement under the "Redemption Provision" section in one of the handouts provided.

Q2. The water and sewer bonds of 2005 had certain stipulations and/or restrictions for the usage of the funds, did they not? If we refinance these Bonds in 2014, will the same restrictions apply?

Yes, the 2005 bonds were issued for specific purposes as shown in the 2005 Official Statement on page 8. Any proceeds from the Series 2005 refunding could be used for any lawful purpose of the Water and Sewer System.

Q3. Are our outstanding 2005 Water and Sewer bond valued at \$4.73M? Would we need to refinance all of it or should we refinance a different amount (higher or lower), and why?

That is correct. There are \$4,730,000 bonds outstanding. The Series 2005 sinking fund will have accumulated sufficient cash to make the June 1, 2014 principal and interest payment. Refunding proceeds will not be needed for the June 1, 2014 principal and interest payment.

Q4. How is your company able to guide this refinancing transaction better than any of your competitors so the city saves the taxpayers the maximum amount of money?

We are Independent Financial Advisers who analyze capital markets and serve in a fiduciary capacity to the City. We monitor capital sources for the best value for our client's specific needs. We represent the best interest of the City independent of banks, bond underwriters or other funding sources. This is how the City is able to save approximately \$170,000 more through the refunding. By independently analyzing the market the City knows that bank loan interest rates and financing cost are lower than a bond issue.

*Please see the attachment "**Selecting the Best Capital Source: Maximize Interest Savings and Minimize Financing Cost**".*

Q5. What term/due date would the new bond or bank loan have, i.e. when would it be due; 10 yrs., 15 yrs., 20 yrs.?

The refunding bonds/loans would have the same term as the remaining term of the Series 2005 bonds. The final refunding maturity would be 2030 or 16 years.

Q6. Is there an early repayment penalty with the proposed refinancing method?

We do not anticipate an early repayment penalty for the refunding. We are refunding at a time when interest rates are near historic lows. The likelihood that rates would drop significantly and provide another significant refunding opportunity seems remote. We will resist document language requiring a prepayment penalty and repayment penalty and if necessary weigh such a provision in light of the potential impact on the refunding interest rate. This has not been a concern in the past but will be addressed fully if necessary.

Discussion followed. Councilwoman Boudreaux moved approval to accept Mr Fray's recommendation and to proceed with the Bank Loan method of refunding the 2005 bonds. Councilman Nodjomian seconded. Council Vote: Schaetzle-yes; Boudreaux-yes; Nodjomian-yes; Rominger-yes. Motion passed.

Mr Fray stated in order to follow the recommended schedule of the bond attorney there is a need to advertise on first reading the ordinance refunding the bonds for public hearing during our regular meeting on March 11, 2013. He stated the title of the ordinance is slightly different for refunding only and refunding with new money. Discussion followed. Councilman Nodjomian moved to use the title that supports refunding and new money to be used for capital improvement projects associated with the Water and Sewer System. Councilman Rominger seconded. Council Vote: Schaetzle-yes; Boudreaux-yes; Nodjomian-yes; Rominger-yes. Motion passed.

The meeting adjourned at 6:45 PM.

MAYOR

ATTEST:

CITY CLERK