

MINUTES
SPECIAL COUNCIL MEETING
CITY OF NICEVILLE, FLORIDA
SEPTEMBER 5, 2019

The Niceville City Council met in special session at 6:00 PM, September 5, 2019 in the Council Chambers, 208 N Partin Drive. All council members and the Mayor was present. Also present were City Manager Lannie Corbin; City Clerk Dan Doucet; Ronald Matthews from the Water and Sewer Department; Fire Department, Chief Mayville, Police Department, Chief Popwell; Sheila Bishop, Library, Community Center and Children's Park and Jessie Mason representing the Technology Department, and 9 visitors in the audience. Mayor Wise called the meeting to order at 6:00 PM.

PUBLIC HEARINGS

Consulting Engineer Briefing - Mr Glenn Stephens, Poly-Inc.

Mr Stephens stated that the Water and Sewer fund is an enterprise fund and the system is required to have rates in place to support it. He stated that during previous bond issues the City made certain covenants, and one of those covenants require you to maintain water and sewer rates that are sufficient so that your net water and sewer revenues, which is your gross revenues less your operating expenses, is at least 115% of your debt service payments and pledged revenues is 130%. This is why we come every year to set those rates that will help the City meet those covenants. He stressed the importance of meeting the coverage test every year to prevent the City from defaulting on current bond issues, SRF and other loans that have coverage requirements. Mr Stephens provided statistical data via a power point presentation. He stated over the past 5 years the City's average revenue was about \$3.9 M in Water Revenue and approximately \$3.6 M in Sewer Revenue. He stated your average rate increase for the last 2 years for water has been .96% and the Sewer rate increase was 2.93%. He explained other series of calculations to come up with his rate model. He covered those items listed in his Capital Improvements Plan and their funding sources. He made reference to a survey of 13 surrounding utilities stating that Niceville's combined rates are 8.4% less than the average rates for water and sewer. He recommended no increase for water and no rate increase for sewer in FY 2020 and if his projections do not change our coverage will be adequate until 2022. At that time a 2% increase will be necessary to meet coverage requirements. Discussion followed.

Financial Advisor Briefing - Mr Bill Fray, Fray Municipal Securities

Mr Fray stated that the 2019 Annual Debt Management Report of the City has been completed. The City's outstanding debt is minimal, is being retired on schedule and

presents certain favorable circumstances. He stated this may result in improvement of the already

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strong credit structure of the City. The City's investable funds are being invested as directed by the City Council by the City Clerk's office.

Water and Sewer System: Continued use of Pay-As-Go funding from many current and foreseeable capital projects opens several fiscal opportunities for overall reduced system cost. Options analysis can be done as these improvements are realized with then current assumptions.

Current Market Highlights: He made reference to Page 2, Section 2 of his report for brief market status and historical perspective as related to the City.

Mr Fray stated that the City Debt Management Program is serving its intended purpose. The City policies provide a proactive approach to efficient use, preservation and allocation of City resources.

He provided a handout summary of the Annual Debt Management Report.

Overview and Purpose

The purpose of this report is to review policies and initiatives to help insure efficient and effective management of the city's debt. This includes both current and prospective programs. Review of existing programs and managed debt are in Report Highlights and Debt Management sections. He made reference to the Debt Statement on Pages 4 and 5 of his report.

The City has a history of conservative policies and proactive management of debt that minimizes debt cost.

The Annual Debt Management Report for the City also includes:

- Monitoring market developments, evolving industry techniques and programs that may be applied to benefit of the City.

Report Highlights

1. Debt Management

Debt Management includes monitoring the municipal market, rates, refunding

opportunities, general market disruptions and identifying new programs that apply to the City. Appropriate responses, recommendations and innovations are presented to the City regarding fiscal issues.

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In addition, State and Federal programs, legislation that affects the market and bond issuance are monitored. Rating agencies criteria and bond insurance companies' parameters are updated and applied as needed.

Reports to the Municipal Securities Rulemaking Board (MSRB); Stand and Poor's and Moody's rating agencies and to investors and bond insurance companies are forwarded as indicated to maintain good credit relationships.

Municipal Market Credit Considerations

Changes in the municipal credit market are recapped below:

Reduced use of municipal bond insurance has impacted the market for municipal securities and has renewed investor focus on disclosure practices and underlying credit quality of municipal securities and municipal issuers.

Credit enhancements were common during 2000-2007, when more than half of the municipal bonds issued were supported by at least one type of credit enhancement during that period. However, private sector credit enhancement in the form of bond insurance in particular has decreased since 2008 due to the effect of the financial crisis on banks and municipal bond insurers. Less municipal bond insurance has meant more reliance on municipal entity's credit quality in recent years. The City has been on the leading edge of refunding outstanding City debt in to lower interest rates when market conditions permitted. In some cases several years later when rates went even lower, debt was refunded again at additional substantial net savings.

Month Customer Charge Reduction - Long Term Planning

There are certain fiscal elements of the Water and Sewer System (the System) that can directly impact Monthly Customer Charges.

Last year we noted five fiscal elements of the System that may provide relief to Monthly Customer Charges beyond the current five-year planning period. These same elements are still in place and provide underlying fiscal strength to the System. The elements include:

1. System growth,
2. Relatively short average-life of exiting debt,
3. Low existing debt interest cost,
4. Minimal projected capital expenditure for System expansion to be funded from debt, and,

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5. Continued Pay-As-Go funding of certain capital cost of the System. We are monitoring these options for proper timing for City consideration.

2. Current and Historical Market Overview

The 20-Bond Index is a barometer of tax-exempt interest rates. It is compiled and calculated each Thursday. On August 26th the Index was 3.03%; Month ago: 3.43%; Year ago: 3.94%.

Explanation for current low rates. The economy is not overheated and interest rates have been declining. One economist said it this way, “While the U.S. economic expansion did not stall as it crossed the finish line to become the longest in our history, it has not been firing on all cylinders either.”

Mr Fray’s Annual Debt Management Report included a 20-Bond Buyer Index compared to 20 Year Treasury Bonds and Debt Statement Recap. He thanked Steven for providing the Debt Statement located at the end of his briefing packet.

Mr Fray concluded his report stating he looked forward to addressing any comments and questions and thanked the Council for the opportunity to be part of this team in serving the City.

Steve Rausch, City of Niceville Comptroller briefed the council on the City Investment Program:

Mr Rausch stated good evening to the Mayor, City Council, Distinguished Leaders and the

City Staff members in attendance. He stated that he was here to provide an investment update for the City of Niceville. He further stated information in his report was as of August 31, 2019. He advised that the City does not currently have a written investment policy, so must comply with 218.415(17) F.S. He further stated that this paragraph basically limits the City’s investments to a) intergovernmental investment pools, b) high-quality SEC registered money market funds, C) CDs or savings accounts in QPDs, and d) US Treasuries. Those 4 types of investment products are an option, although,

218.415(23) provides for addition type of investment products, with specific requirements. Currently the 3 negotiable CDs invested through Synovus Bank for the O&M Fund meet those additional requirements.

BOTTOM LINE:

A) The City does not have a formal written investment policy.

B) The City complies with pertinent Florida Statutes regarding investing City funds.

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FUNDS AVAILABLE FOR INVESTMENT

He stated that funds available for investment are only those funds in excess of funds required to meet short-term expenses. These do not include employee pension funds which are managed by others. Where bond funds are governed by contractual policies or indentures, we comply with those additional debt requirements.

The “Prudent Person Rule” states “Investments should be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.”

In the City of Niceville, safety of capital is the first priority. The liquidity needs of the City are carefully calculated, so all operational and debt service cash requirements are met, and the calculation allows a substantial margin for unforeseen cash requirements. Only as a tertiary consideration is the investment income (interest rate) considered.

BOTTOM LINE:

A) We’re only discussing investing funds not expected to be spent during FY 20.

B) We only invest the City’s funds as a prudent person would invest their own funds.

C) When choosing investment options, safety liquidity, and return...in that order.

HOW ARE CITY FUNDS PROTECTED?

I use several methods to research the financial institutions that may hold City funds on deposit, or manage City investments. The research includes some or all of the

following: a review of financial institution's latest financial statement ,their star-rating on bankrate.com website, whether they are included on the Qualified Public Depository (QPD) list, and public information about the financial institution as available in news media.

The bank.rate.com website provides links to financial statements of all of the banks it rates. The website provides valuable tools to evaluate a bank's capital score, asset quality score, and earnings quality score in relation to a national average for banks, It also uses a "Safe & Sound" rating system as shown below:

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CURRENT INVESTMENTS

The 4-page handout you have received shows Niceville's current investments, by fund and by bank, on pages 1 and 2 respectively. The totals from the two pages reconcile, but they do not include the millions of dollars in City bank accounts that are not invested, but earning 1.6% interest from Synovus Bank.

Page 3 shows some information about Local Government Investments Pools. No City funds are invested with any LGIP's but we are considering that as an option. The LGIP chart shows how may millions of dollars of government entity funds, from local governments, state government agencies, schools, courts, and other government entities, are managed by the professional investment managers, some of which are overseen by Boards composed of local government officials throughout the State.

LGIPs often offer a better investment return with negligible increase to risk. I included the LGIPs in the presentation because I have been discussing them as an option to diversify the City's investments, while retaining liquidity and keeping risk very low. Although LGIPs add a very small amount of risk to an investment portfolio, they offer a higher return. Currently, as page 3 of your investment handout shows, they are paying about 2.35% with CD rates for government funds at about 1.9%. FL PRIME had a problem back in 2007 when they invested in the real estate market too heavily, so they had to restrict withdrawal of part of all participants's deposits until these accounts earned enough interest to cover the associated losses caused by the real estate market crash back then. All participants eventually got back all of their invested principal in that unique situation. But, LGIPs are taking more precautions to diversify their holdings making the failure of one sector less likely to cause a substantial loss for participants.

Page 4 shows the current investment schedule. It currently plans for investments

of \$750,000 maturing each fiscal quarter, with a 1 to 2-year term. Mr Rausch asked if there are any questions. The Council thanked him for his presentation.

Mr Doucet briefed the following agenda items:

Resolution 19-09-01- A resolution increasing the Commercial Sanitation Tipping Fee and providing for an effective date. Effective 1 October, the County is increasing their tipping fees by 1.16%.

Mr Doucet read Resolution 19-09-01 by title. He stated that effective 1 October, 2019 the County is increasing their tipping fees by 1.16%. Councilman Henkel moved approval. Councilman Nodjomian seconded. Mayor Wise asked if anyone in the audience wanted to

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speak on this item. No one spoke for or against. Council Vote: Henkel-yes; Schaetzle-yes; Boudreaux-yes; Nodjomian-yes; Alley-yes. Motion passed

Resolution 19-09-02 - A resolution increasing the Residential Sanitation Tipping Fee and providing for an effective date. Effective 1 October, the County is increasing their tipping fees by 1.16%. This increase represents a \$ 0.16 cents increase.

Mr Doucet read Resolution 19-09-02 by title. He stated that effective 1 October, the County is increasing their tipping fees by 1.16%. He stated this represents a \$0.16 cents increase. Councilman Nodjomian moved approval. Councilwoman Alley

seconded. Mayor Wise asked if anyone in the audience wanted to speak on this item. No one spoke for or against. Council Vote: Henkel-yes; Schaetzle-yes; Boudreaux-yes; Nodjomian-yes; Alley-yes. Motion passed

Resolution 19-09-03 - A resolution increasing the rate for Yard Waste/Bulk items picked up from Residential Customers within the corporate limits of the City and providing for an effective date. Mr Doucet stated that effective 1 October, this rate will increase from \$4.06 to \$4.35 to include bulk rate pickup which represents a \$ 0.29 cents increase. Councilman Henkel moved approval. Councilman Schaetzle seconded. No one spoke for or against. Council Vote: Henkel-yes; Schaetzle-yes; Boudreaux-yes; Nodjomian-yes; Alley-yes. Motion passed

Ordinance 19-09-03 - An ordinance of the City of Niceville, Florida levying the Ad Valorem Property Tax millage rate for municipal purposes on all taxable property within the City for the Fiscal year beginning October 1, 2019 and ending September 30, 2020 stating the percentage by which the millage to be levied exceeds the rolled-back rate; and providing for an effective date. (First Reading)

Mr Doucet read Ordinance 19-09-03 in its entirety. Councilwoman Boudreaux moved approval on first reading. Councilman Nodjomian seconded. Mr Doucet stated that the percentage by which this millage rate to be levied exceeds the rolled-back rate of **3.5455** Mills (computed pursuant to Florida law) is **4.36%**. He stated the projected revenues will be used to defray budgeted general fund expense. Mayor Wise asked if anyone in the audience wanted to speak on this ordinance. No one spoke for or against. Council Vote: Henkel-yes; Schaetzle-yes; Boudreaux-yes; Nodjomian-yes; Alley-yes. Motion passed

Ordinance 19-09-04 - An ordinance adopting the final budget for the City of Niceville for the fiscal year commencing October 1, 2019 an ordinance adopting and approving the appropriations set forth in said budget for the fiscal year commencing October 1, 2019 and providing for an effective date. (First Reading)

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Mr Doucet read Ordinance 19-09-04 by title and provided an overview of estimated revenues and expenditures as follows:

General Fund

Total estimated revenues and expenditures: \$ 19,391,580

Community Redevelopment Agency (CRA)

Total estimated revenues and expenditures: \$ 290,070

Sanitation:

Total estimated revenues and expenditures: \$ 3,505,080

Water and Sewer

Total estimated revenues and expenditures \$10,605,850

Storm Water Management

Total estimated revenues and expenditures \$4,216,810

Total Budget is \$ 38,009,390

Councilman Henkel moved approval on first reading. Councilwoman Boudreaux seconded. Mayor Wise asked if anyone in the audience wanted to speak on this ordinance. No one spoke for or against. Council Vote: Henkel-yes; Schaetzle-yes; Boudreaux-yes; Nodjomian-yes; Alley-yes. Motion passed

SENIOR CITIZEN ADDITIONAL EXEMPTION:

Mr Doucet stated that the Niceville City Council adopted an ordinance to allow an additional homestead exemption of up the \$50,000 for any person who has the legal or equitable title to real estate and maintains thereon the permanent residence of the owner, who has attained age 65, and whose household income does not exceed the current adjusted income limitation of \$30,174 for 2019. As of today, there are 93 Niceville residents who have applied for Senior's Exemption. The additional senior exemption could potentially save a property owner up to \$ 185.00. Thus, it was a good decision by the City Council to approve this provision for our lower income seniors years ago.

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Other Comments:

Councilman Nodjomian praised the City Manager and staff members for maintaining their department expenditures at an acceptable level and maintaining a stable property tax millage rate level for a number of years. He expressed his appreciation for a job well done.

Mr Doucet advised that the final budget hearing is scheduled for September 19, 2019 at 6:00 PM.

The meeting adjourned at 6:35PM.

MAYOR

ATTEST:

CITY CLERK

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