

Naples, Florida

February 3, 1989

LET IT BE KNOWN, that the Pelican Bay Improvement District met on this date in a Special Session at 9:00 A.M., in the Naples Federal Savings & Loan Building, Fifth Floor, 5801 Pelican Bay Boulevard, Naples, Florida, with the following members present:

PRESIDENT: James D. Hake
SECRETARY: Ramer B. Holtan
 J. Russell Mudge
 James R. Dunwiddie
 Walter B. Potter

ALSO PRESENT: Mr. James P. Ward, Assistant District Manager; Mr. Joe McMackin, Attorney for the District; Mr. Art Diamond of Fishkind & Associates; Mr. William Reagan of Alex, Brown & Sons; Mr. Lou Hoegsted of Westinghouse Communities of Naples, Inc.; Mr. John Petty of the Pelican Bay Improvement District and Ms. Jean C. Smith, Assistant Secretary.

AGENDA

1. Refunding of the Series 1985 Water & Sewer General Obligation Bond Issue.

ROLL CALL

Mr. Hake called the meeting to order at 9:00 A.M. and asked the record show all members present.

REFUNDING OF THE SERIES 1985 WATER & SEWER GENERAL OBLIGATION BONDS

Mr. Ward recalled for the Board that as previously promised, once staff, the Financial Advisor, the Underwriter and the Attorneys were ready to proceed with the bond refunding, staff would review with the Board all the issues relative to the Bond issue, in terms of financing, the interest rates, and how the District would proceed to sell the bonds, before the refunding took place. He explained that the purpose of today's meeting was to have Mr. Bill Reagan, of Alex, Brown & Sons, Inc. review the terms of the bond issue with the Board and to have Mr. Diamond, review his analysis of the sale. At this time, Mr. Ward introduced Mr. Reagan.

Mr. Reagan advised that after a great deal of preparation, he felt the point had been reached where the District was ready to market the bonds. He explained the difference between a bank qualified bond issue versus a non-bank qualified bond issue. He advised that neither deal was a bad deal, i.e., both were acceptable transactions, however, one offered some unique tax advantages over the other. He explained that he had performed sixteen different analyses during the past three to four months to analyze where the interest rates were and to determine where the District could save the most money and in order to accomplish the greater savings, it was determined that a bank qualified transaction would offer the best savings. He advised that a bank qualified issue simply meant that the deal was less than \$10,000,000, which would make it very attractive to banks, and with the strong competition among banks to purchase these bonds, the savings could range anywhere from ten (10) to

fifteen (15) basis points on the spread. Thru the use of a chart, he pointed out that an analysis of the two scenarios showed a true interest cost of 7.22% for a bank qualified issue versus 7.32% for a non-bank qualified issue. He cautioned that these interest rates fluctuate daily, however, the savings in this spread would be \$283,000, which is above the targeted savings, versus the savings on a non-bank qualified deal of between \$148,000-\$158,000.

He commented that the Financial Team was able to successfully obtain Debt Service Reserve Fund Insurance, which is simply an insurance policy which allows the District to eliminate having cash sitting in the Debt Service Reserve Fund. By use of this insurance, the District will be able to take the \$928,960 currently in the DSRF and place it into escrow, which will reduce the size of the issue and create the savings.

Mr. Reagan advised that a positive thing which came about whether the District proceeded with this issue or not was that the Supplemental Resolution amending the 1979 Bond Resolution now included a substitution clause which allowed the District to substitute DSRF Insurance for cash and this was important because under the current tax laws the District can no longer arbitrage the money. He also advised that the Financial Team was able to secure written consent and approval from 60% of the bond holders for the approval of this Amendment.

Mr. Reagan explained that the one disadvantage to a bank qualified issue was that it could not exceed \$10,000,000 and some of the disadvantages to a non-bank qualified deal were the slightly higher cost of issuance and a slightly larger issue size. He explained that all of

the information and paper work necessary to proceed with the issue had been accomplished and they were now in the position to market the bonds. He advised that currently the market was at an excellent point i.e., beyond the point they originally expected to proceed with the deal and that interest rates were currently at their all time low in the past two years. He further advised that next week should be a low volume week, however, he was worried that the third and fourth week of February would be a high volume week. He stated that he had recently performed a survey of upcoming issues and he did not know of any bank qualified issues that would be coming into the market during the second or third weeks of February, which made this issue even more attractive. Also, according to a trader he had talked to last evening, he was informed that if things proceeded on the same course, true interest costs could even be below the 7.22% and probably more closely to 7.19%.

In conclusion, Mr. Reagan advised he felt the market was right, the Financial Team was ready to go and he felt they had structured the issue to the lowest possible interest rate with the highest savings to the District to have the greatest amount of cash flow in the beginning years, and he felt the Board should consider proceeding with the refunding.

Mr. Art Diamond of Fishkind & Associates explained that the main reason for doing a refunding is to generate savings and this is exactly where the District was at this particular time in the market place. He advised that municipal rates have come down to the point where the District would generate, in today's dollars, approximately

\$280,000 worth of savings. He explained that the second reason for a refunding is to rewrite what might have been a restrictive underlying Resolution, however, he advised that the District's Resolution is in very good shape.

It was Mr. Diamond's concern that interest rates will now tend to rise, because as a vacuum is created for municipal paper, issuers tend to push their issues a little faster so they can get into the market place before everyone else does. He believed that the District was at the point where they should move ahead on the sale of the bonds, if it was acceptable to the Board. He advised that the level of savings is now above what he understood was the target area, 3% of the par amount, so that as far as he was concerned all of the things were in place.

Mr. Diamond explained the mechanics of the refunding. He commented that prior to the sale of the bonds in the market place, you send out a Preliminary Official Statement, which alerts potential buyers to the issue and also describes the issue and in essence activates their interest in the District's bond issue. He stated that the Preliminary Official Statement should be bound and mailed as soon as possible so that sometime next week the Underwriters could go into the marketplace to obtain commitments to purchase the bonds (pre-marketing of the bonds), which are in effect, confirmed on the day of closing. He advised that the Underwriters are willing to do this as long as they have some kind of assurance from the issuer that the rate that the issue is sold at and the savings that will be generated are acceptable to the

District. He explained this is called a "verbal handshake" and in essence what is says is that the District approves and is happy with the savings. He stated this is then followed up by a confirmation meeting, which most likely would be the next regular meeting on February 15, 1989, at which the Board approves the refunding. Mr. Diamond recapped the sequence of events as follows: (1) to obtain the Board's approval to proceed; (2) to print and mail the Preliminary Official Statement; (3) to go into the marketplace to get commitments from people to buy the bonds; and (4) to have verbal assurance or a "verbal handshake" from a representative of the District that both the interest rate and the savings are what the District will be happy with. Mr. Diamond advised that before there is any pre-marketing of the bonds a representative of the District, along with himself and the Underwriters sit down to determine the interest rate that would be acceptable to the District and whether the market environment will accommodate. He explained that this process occurs before anything is done with regard to going into the marketplace. He advised that it was important for the Board to be aware that there would be no surprises. He explained that the pre-marketing is an ongoing process with all the participants knowing from the very beginning what the market looks like on that particular day, what looks like a reasonable rate to approach people with and what savings are generated at that particular rate. He explained that after the bonds are marketed, the Financial Team again sits down to determine whether they are happy with the pre-marketing and accept the price; this, then, is the verbal assurance that is given to the Underwriter.

Mr. Diamond advised the Board that if everything proceeds according to schedule, the verbal assurance could come as soon as next Tuesday or Wednesday and would be confirmed by the Board at the February 15th meeting, at which point the Board sign a Bond Purchase Agreement, which is the official document turning the bonds over to the Underwriter. He stated that this Agreement legally turns the bonds over to the Underwriter and if the market disappears between the 15th and when the issue is closed, which is at least fifteen days, this would be the Underwriter's hard luck, not the Districts.

Mr. Diamond again stated that there would be no surprises; that it was his job to see that there were no surprises and that the Board is fully aware of each and every step that goes on during this process.

Mr. Diamond talked about the costs involved in the refunding. He advised that the only expense the District would incur between now and when the District pre-markets the bonds would be the cost of printing the Official Preliminary Statements, which he estimated at \$1,000 or less.

Mr. Diamond explained that the decision the Board must make today was whether the level of savings, as proposed, was acceptable and whether the Board would give the Underwriter and himself and a representative of the Board approval to proceed with the pre-marketing.

Mr. Diamond stated that the Board had several options; they could delay any decision and think about it, however, then there was the possibility the District would miss the market entirely, or the District

might generate less savings or, in the reverse, generate more savings. He advised that the Board was at risk if they didn't do anything today in the sense that the market might slip away or it might get better. His recommendation was for the Board to spend the \$1,000 for the Preliminary Official Statement, mail the statement and get into the process of pre-marketing and see where the District would be next week.

Mr. Diamond called for questions from the Board. Mr. Mudge asked whether the savings as shown on the Advance Refunding Analysis were net savings. Mr. Diamond responded in the affirmative.

Mr. Dunwiddie asked Mr. Diamond to define the term "true interest costs". Mr. Diamond responded that this was with all up front costs thrown in plus the rate that the District would pay on the bonds. Mr. Dunwiddie asked what the true interest cost was on the old bonds. Mr. Ward responded that the true interest cost on the 1985 Bonds was approximately 9.25%.

In response to a question by Mr. Mudge on the varying daily interest rates, Mr. Diamond stated that under normal circumstances the rates don't vary that much from day to day, however, there was no way he could guarantee that they wouldn't vary and there is a tendency for rates to become volatile in a short period of time, depending on the market environment.

Mr. Dunwiddie asked Mr. Diamond if the economy were to go into a recession, what kind of a true interest rate the District would be looking at for these bonds. Mr. Diamond replied that during a recession, he has seen rates go up and come down, and it would be very

difficult for him to predict what effect a recession would have on these bonds.

Mr. Dunwiddie stated that this was a one shot opportunity and he did not know whether it would be better to refund now or next week or next year or the year after. Mr. Diamond explained that this is not a one shot opportunity; but rather an opportunity to generate savings at an acceptable level. He remarked that if in five years, for example, the rates are a lot lower, the District could conceivably refund the bonds a second time. He advised that the District can refund the bonds twice. He suggested, however, that the District has already been through one experience where they had missed the "window" and the problem with waiting is that the District may again miss another "window".

Mr. Dunwiddie suggested that the problem he had with the refunding is that the District would be spending approximately \$250,000 to save \$250,000 and if the District could get to a 3% differential, the District would save \$500,000 and spend \$250,000. Mr. Diamond remarked that he often hears this comment and it is a valid one, however, without spending any money, the District would not generate any savings.

Mr. Mudge remarked that a good part of the savings would be up front. Mr. Reagan concurred that the greatest savings to the District would be in the first five years. Mr. Mudge further commented that he felt the District would be taking a great chance if they waited. Mr. Diamond commented that he did not suggest that the District wait, that his recommendation was that the District go ahead and refund now. Mr.

Diamond also advised that the Debt Service Comparison Schedule as outlined in the Refunding Analysis, was shown in present day dollars.

Mr. Hake stated that some time ago Mr. Potter had suggested that he would like to become involved with anything that had to do with bond issues and the Board had more or less agreed that he should do this and at this time asked Mr. Potter for his comments. Mr. Potter agreed with Mr. Diamond that the District should proceed with the refunding immediately and while he felt there was a good chance interest rates may well go down, there was also a chance that there will be inflation which means the dollar won't be worth as much.

Mr. Holtan commented that some time ago, at his urging, the Board decided to pay Mr. Diamond to tell the Board what to do, and he has now told them what to do and he was ready to move that the Board accept Mr. Diamond's advice.

Mr. Hake asked why the Board should recommend any specific interest rate because this would defeat the purpose of trying to get a lower interest rate. Mr. Diamond responded that the Board would not be recommending a specific interest rate. He commented that the Board had previously indicated a level of savings they desired to obtain, i.e., a target area, and this was somewhere between \$240,000 and \$280,000 or as high as they could get. He advised that during this process, the Board's representative will know exactly where the savings are so that if the District goes into the market place and it turns out that the Underwriter can get a lower interest rate then the savings will be greater. He stated that interest rates mean very little, it is the

savings that will be generated that are important and the purpose for doing the refunding in the first place.

Mr. Dunwiddie stated that on Page 22 of the Refunding Analysis the Outstanding Debt Service payable over time showed interest of \$11,613,798.75 on the current issue and on Page 3 of the Debt Service Schedule for the refunded issue it showed interest of \$8,829,069.03 and, if this was correct, the District would be saving something just short of \$3,000,000 over twenty-one years. Mr. Reagan responded this was correct on a present value savings. Mr. Dunwiddie further stated that on Page 5 of the Analysis it showed the Debt Service Comparison for the refunding issue as compared to the outstanding debt service, and instead of having a savings of \$2,800,000 over time, it showed that over time the District would lose \$84,262. In other words, if he read this correctly, it showed that if you compare what the District would do if they did nothing with what would happen if the District made the changes being recommended, the District would be out \$84,000 over time. Mr. Reagan explained that the schedule could be shortened by one year, however, what he was trying to do was match the maturities of the original issue, and if it was shortened by one year the numbers could be flipped and it could be said that the District would save close to \$600,000, cumulative savings. He explained it all depended on how the issue was structured. Mr. Dunwiddie remarked that if he could make this kind of plan with numbers, then Mr. Reagan was playing with numbers and not telling him the truth. He wanted to see a comparison of what happens to the time flow of the District's money if the District

proceeded with what was being proposed versus doing nothing and felt this was a simple request.

Mr. Diamond explained that if the District did nothing, the District would continue to pay its debt service as scheduled at a certain level, however, if they proceeded with the refunding under the suggested structure it would result in an overall negative number. He then tried to explain how this resulted in a savings to the District. He explained the reason for the savings was that the Debt Service Reserve that the District would utilize for the final payment could be utilized today, rather than twenty-two years from now and this would result in a savings because if the District did nothing, this money would sit in the Reserve Account earning a certain interest rate and be used to pay the last year's payment and when you got to the twenty-first year the value of this money would be a great deal less. This, he explained, is where the savings would be generated, in that the money that the District is letting sit in the Reserve Account would be eaten away by the inflation effect. Mr. Diamond explained that if the District proceeds with the schedule as set forth for the refunding, the District's overall payments would be slightly higher than they are now, however, the value in today's dollars is less so that when the District gets to the last year and the District takes its DSR money and makes the last payment, in essence, the value of this amounts to present day dollars; i.e., dollars that the District can use today and which are available.

Mr. Dunwiddie commented that he just didn't understand it,

that it had just been established there would be a \$2.8 million dollar savings on the interest rate. Mr. Diamond explained that the \$2.8 million dollars was not a net figure and did not include the earnings on the Debt Service Reserve. Mr. Diamond suggested that he look at Page 4 of the Analysis which included the DSRF Earnings. Mr. Dunwiddie then stated he was wrong when he said the District would save \$2.8 million dollars because the District would not save \$2.8 million dollars but rather a small amount of money, in fact, no money. He remarked that forgetting the time value of money, the District would show a loss of \$84,000. Mr. Diamond remarked that this was correct. Mr. Dunwiddie asked why with a 2% savings would the District come out with a net loss. Mr. Reagan responded that the calculations were built to show the savings up front, however, the calculations could be spread out to show the savings at the end and then the District would show a net savings. Mr. Dunwiddie asked that everyone forget about the time value of money and talk about actual dollars. He explained that the reason he was not concerned about the time value of money was the District was not running a business but was extracting money every year from the Pelican Bay residents and there are different people every year and it not the same thing as if he were a stockholder in a company. He stated his problem was that he simply did not understand why, if the District receives a 2% saving, how this savings would all be eaten away.

Mr. Mudge explained that this analysis had to be considered on the value of the dollar today and the value of the dollar during the later years when the District would be paying back this money. He

further explained that you try to get most of your savings up front as this is the most sensible structure.

Following a lengthy discussion and a comparison of two different rate analyses, Mr. Dunwiddie commented that he still did not understand the numbers, as presented, and was not sure that Mr. Reagan's numbers were correct.

Mr. Hake called for comments from Mr. McMackin on the legality and the structuring of the issue. Mr. McMackin stated that Mr. Diamond was asking the Board to appoint a representative to work with he and the Underwriter to establish the "verbal handshake" and this would then be brought back to the full Board at the regular monthly meeting on February 15, 1989 for confirmation. He pointed out that up to this point he has always advised the Board that they were under no obligation, however, he advised that what they decided today would create an obligation on the District's part and this would be a point of no return to the extent that the Board will have said that one of the Supervisors will work with the Underwriter and the Financial Advisor and will make a verbal agreement as to what interest rates will be acceptable and, relying on this, the Underwriter will go out to the market and sell the bonds. Thus, he did not wish the Board to underestimate the importance of the decision they would be making; at least a moral commitment at this point. Mr. McMackin suggested the Board set forth a criteria within which the Board's representative could operate. Mr. Hake asked whether this was done as part of a previous meeting. Mr. Ward commented that he was not sure that any specific dollar figure was ever established, but

the criteria of about a 3% present value savings was established and this is the figure that both Mr. Reagan and Mr. Diamond have been working under. Mr. McMackin remarked that the criteria which was set forth was that savings amount to approximately \$240,000 to \$250,00, with a level debt service and the same maturity on the bonds. Mr. Ward commented that he did not think it was wise for the Board to give Mr. Reagan the impression that the District was going to accept this number, that he felt the Board's representative should have the opportunity to try and make this number as high as he possibly could. Mr. Hake concurred, however, stated that it had been pointed out by previous Board's that the District would not accept any savings less than \$240,000. Mr. McMackin explained that the Board was not bound by this number.

Mr. Dunwiddie noted that the amount to be paid the Underwriter had risen from 1.4% to 1.75% and he felt the Board was entitled to know why this happened in something less than three months. Mr. Reagan explained that he did not desire to lowball the fee to build up the sale and thus he used the 1.75% in the Refunding Analysis. Mr. Diamond explained that the Underwriters Discount is composed of four major factors: (1) a management fee which is payment to the Underwriter for helping the District structure the issue; (2) a risk factor which is a built in compensation to the Underwriter should interest rates increase during the verbal handshake and actual delivery of the bonds; (3) the Underwriters expense with regard to marketing the bonds; and (4) a takedown or the salesman's commission. Mr. Diamond explained that when

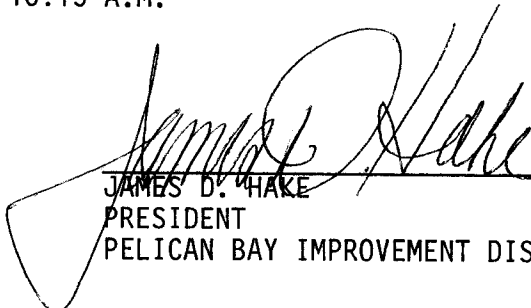
the Underwriters first size a bond issue, the industry generally uses a higher figure and this then is negotiated down. He explained that it is a negotiated number with regard to the spread and is an ongoing process up to the day of the sale. He explained this fee will be negotiated by himself, District staff and the Board's representative with the Underwriter as they learn more about the market environment. Mr. Hake advised Mr. Dunwiddie that the previous Minutes would show this was not a fixed number and Mr. Diamond had always represented that this figure was negotiable.

There being no further discussion, Mr. Mudge moved, seconded by Mr. Holtan, with Mr. Dunwiddie voting nay, and approved that the District proceed with the refunding of the Series 1985 Water & Sewer General Obligation Bonds.

At this time, Mr. Hake moved, seconded by Mr. Holtan, and approved unanimously that Mr. Potter be appointed the Board's liaison with the Underwriter, the Financial Advisor and staff in the refunding proceedings.

ADJOURNMENT

There being no further business to come before the Board, Mr. Dunwiddie moved, seconded by Mr. Mudge and approved unanimously that the meeting be adjourned. Time: 10:15 A.M.



JAMES D. HAKE
PRESIDENT
PELICAN BAY IMPROVEMENT DISTRICT