EXHIBIT B

FirstSouthwest

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The Debt Issuance Process and Financing Alternatives

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City of Fernandina Beach, Florida

The Debt Issuance Process

PHASE 1: DEVELOP FINANCING PROGRAM	PHASE 2: SET FINANCING TERMS	PHASE 3: COORDINATE RELATED SERVICE PROVIDERS
⇒ Conduct Survey of Financial Resources ⇒ Review Existing Debt ⇒ Analyze Full-Range of Debt Alternatives ⇒ Develop Plan of Finance	⇒ Structure the Financing ⇒ Design Issue Features ⇒ Evaluate Market Innovations ⇒ Determine Method of Sale	⇒ Coordinate with Bond Counsel to Meet Legal Requirements ⇒ Select Underwriter or Syndicate for Negotiated Sales ⇒ Arrange Related Service Providers
PHASE 4: PREPARE DOCUMENTATION	**PHASE 5: COORDINATE RATING AND CREDIT ENHANCEMENT PROCESS**	**PHASE 6: CONDUCT MARKETING AND SALE OF DEBT**
⇒ Prepare Offering Documents	⇒ Develop Bond Rating Strategy ⇒ Evaluate Bond Insurance Recommendations	⇒ Coordinate Pre-sale and Pricing ⇒ Conduct Sale of Debt ⇒ Close Transaction ⇒ Prepare Transaction Summary

PHASE 7 ONGOING SERVICES	
⇒ Conduct Post-Sale Review ⇒ Recommend Arbitrage Compliance and Asset Management Strategies ⇒ Maintain Continual Client Relations	⇒ Monitor Legislative and Regulatory Changes ⇒ Monitor Refunding Opportunities ⇒ Evaluate Market Innovations

Development of a Financing Program

1. **Identify potential capital improvement projects**
2. **Prioritize the capital improvement projects identified**
3. **Determine the amounts needed to fund the identified capital improvement projects - cost estimates**
4. **Assess affordability of the capital improvement program, identify funding sources and adjust the timing of the projects**
5. **Incorporate funding of the projects into:**
   A. *Annual Budget Process*
   B. *Five Year Capital Improvement Plan*

Funding Sources

- **Pay As You Go**
- **Grant Funding**
- **Bank Financing**
  - **General Obligation Debt (Voter Approval Required)**
  - **Revenue Debt (Voter Approval Not Required)**
- **Pooled Loan Financing**
- **Bond Financing**
  - **General Obligation Bonds (Voter Approval Required)**
  - **Revenue Bonds (Voter Approval Not Required)**

Revenue Pledges for Debt Financings

- **General Obligation Bond**

- **Non-Ad Valorem Revenues**
  - *Sales Taxes*
  - *Gas Taxes*
  - *Communication Services Tax*
  - *Utility Taxes*

- **Enterprise Fund Revenues**

- **Special Revenue Pledges**
  - *CRA Revenues*
  - *Special Assessments*

General Obligation Bonds "GOs"

- **Requires bond election for authorization**
- **Issued for any public purpose**
  - *Real Property*
  - *Personal Property*
  - *Legal Judgment*
  - *Land Acquisition*
- **Secured by issuer's full faith, credit and ad valorem taxing power**
- **Attracts low interest rates**

Revenue Bonds

- **Requires no voter authorization**
  - *Water system*
  - *Sewer System*
  - *Sanitation*
  - *Sales Tax*
  - *Gas Tax*
  - *Communication Services Tax*
  - *Special Assessments*
  - *CRA revenues*
  - *Special projects*
  - *Other*

- **Secured solely by the pledges revenues**

- **Sell at interest rates slightly higher than comparable General Obligation Bonds**

- **Normally require a reserve fund equal to one year of debt service**

Differences Between Revenue and Tax-Supported Debt

- **Revenue Bonds are only supported by a revenue stream from an enterprise fund or the pledges revenues.**
- **Revenue Bonds are not backed by the full faith and credit of the issuer; consequently, they do not require electoral approval.**
- **Bondholders are dependent upon revenues from the specific tax pledge or the revenues generated by the enterprise or project to be repaid the principal and interest on the bonds.**
- **Revenue Bonds typically sell at an interest rate that is slightly higher than comparable rated General Obligation Bonds.**

Revenues Generated by Millage

		FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Millage Rate					
	Operating	3.8359	3.9873	4.2420	4.6612
	Debt	0.2319	0.2336	0.2435	0.2753
	Total	**4.0678**	**4.2209**	**4.4855**	**4.9365**
Property Tax Revenues		**$7,734,549**	**$8,069,241**	**$8,294,500**	**$8,115,445**
Additional Tax Generated by a 1 mil increase		$1,901,408	$1,911,735	$1,849,181	$1,643,967
Additional Millage Needed for a $1 million annual debt service payment		**0.5259**	**0.5231**	**0.5408**	**0.6083**
Average Impact on Homeowner with Assessed Value of $150,000 and Homestead Exemption			**$52.31**	**$54.08**	**$60.83**

Comparison of a 20 Year and 30 Year Financing

	Twenty (20) Year Bond Financing	Thirty (30) Year Bond Financing	Difference
Sources:			
Par Amount	$11,140,000	$10,985,000	$155,000
Net Original Issue Discount	($58,796)	($27,249)	($31,547)
Total Sources	**$11,081,204**	**$10,957,751**	**$123,453**
Uses:			
Project Funds	$10,000,000	$10,000,000	$0
Debt Service Reserve Fund	$938,713	$814,444	$124,269
Cost of Issuance*	$142,491	$143,307	($816)
Total Uses	**$11,081,204**	**$10,957,751**	**$123,453**
All-In Interest Rate (Market Rates + 0.50%)	**5.75%**	**6.30%**	**-0.55%**
Total Debt Service	**$18,911,629**	**$24,562,072**	**($5,650,444)**
Maximum Annual Debt Service	$938,713	$814,444	$124,269
Millage Rate Impact (FY 2010-11)	0.5710	0.4954	0.0756

Impact of $10 Million Project Financing on Millage

Millage Rate for FY 2010-11

Operating	4.6612
Debt	0.2753
Total	**4.9365**

FY 2010-11 Budgeted Property Tax Revenues	$8,115,445
Additional Tax Generated by a 1 mil increase	$1,643,967
Additional Millage Needed for Debt Service on a 20 Year Bond Issue	**0.5710**
Average Impact on Homeowner with Assessed Value of $150,000 and Homestead Exemption	$57.10
Additional Millage Needed for Debt Service on a 30 Year Bond Issue	**0.4954**
Average Impact on Homeowner with Assessed Value of $150,000 and Homestead Exemption	$49.54

Historical and Projected Non-Ad Valorem Revenues

Revenue Stream	Actual Revenues 2007-08	Actual Revenues 2008-09	Projected Revenues 2009-10	Budgeted Revenues 2010-11
Half-Cent Sales Tax	$653,359	$581,700	$558,241	$580,233
Small County Sales Tax	$1,256,435	$1,131,870	$1,096,146	$1,107,923
Franchise Fees-Electric	$949,809	$1,156,755	$1,225,415	$1,260,000
Public Service Taxes :				
Electric	$517,230	$601,369	$622,093	$650,000
Communications	$700,102	$768,657	$722,495	$733,000
Water	$221,695	$219,949	$224,592	$215,000
Gas	$ 94,387	$ 85,715	$ 97,053	$100,000
Local Option Fuel Tax	$231,755	$224,495	$196,348	$215,051
8th Cent Tax	$243,746	$240,285	$239,297	$140,000

Pledged Revenues as of September 30, 2010

Pledged Revenue

Pledged revenues on the City's outstanding debt for the year ended September 30, 2010, was as follows:

	Revenue Pledged	Pledged Through	Original Amount	Outstanding Balance	Principal and Interest Payments	Revenue Received	Estimated Percentage Pledged
Governmental Activities							
Capital Improvement Revenue Refunding Bonds, Series 2005	Half-cent Sales Tax	2020	$ 2,233,240	$ 1,613,061	$ 196,403	$ 558,241	35%
General Obligation Bonds, Series 2001	Voter Approved Ad-Valorem Tax	2021	6,000,000	3,970,000	473,030	474,000	100%
Business-type Activities							
Capital Improvement Revenue Refunding Bonds, Series 2005	Electric Franchise Fees	2020	6,771,760	4,911,939	598,074	1,225,415	49%
Utility Acquisition Bonds, Series 2003	Net Utilities Revenues	2033	32,985,000	31,015,001	1,900,899		
Utility Refunding Bonds, Series 2004	Net Utilities Revenues Including Impact Fees	2017	5,780,000	3,650,000	517,628		
Utility Bonds, Series 2010	Net Utilities Revenues Including Impact Fees	2024	5,215,000	5,085,000	270,297		
					2,688,824	3,627,034	74%
Revenue Note, Series 2008	Golf Revenues	2013	292,631	180,746	63,212	1,289,845	5%
Revenue Note, Series 1995	Airport Lease Income	2011	45,663	9,133	9,533		
Revenue Note, Series 1996	Airport Lease Income	2017	264,000	173,000	30,491		
Revenue Note, Series 1996B	Airport Lease Income	2012	30,138	11,821	4,942		
Revenue Note, Series 2007	Airport Lease Income	2022	850,000	720,000	77,752		
					122,718	495,296	25%
Revenue Note, Series 2009	Net Marina Revenues, CRA Revenues	2024	1,300,000	1,237,000	114,490	315,653	36%

Pros and Cons of Bank Loans Versus Bond Issues

- ***The advantages of a bank loan versus a bond issue include:***
  - The ability for the Municipality to lock in a fixed interest rate and mitigate the risk of a rise in rates until closing
  - Lower cost of issuance
  - Less documentation
  - Minimal ongoing disclosure
  - The ability to refinance or restructure the loan at a reduced cost versus a bond issue.
- ***Disadvantages include:***
- Inability to obtain fixed rate financing for more than 20 years.
- Rate adjustment language in the event that there is a change in laws such as the corporate tax rates that would adversely impact the rate of return to the bank.
  - If the corporate tax rate is decreased, the benefit to the bank is decreased and the bank reserves the right to adjust its interest rate to reflect the decreased benefit.
  - The opposite occurs if the corporate tax rate is increased, and the interest rate paid by the Municipality will be reduced.

Overview of Bank Qualified Loans Closed in October 2010

- Request for Proposals ("RFP") for the following two (2) bank loans were sent out to twenty-one (21) lending institutions on September 13, 2010:
  - A Bank Qualified Bank Loan not to exceed $4,100,000 for the purpose of refunding the City's outstanding General Obligation Bonds, Series 2001. Final maturity on April 1, 2021
    - Awarded to BB&T at a rate of 2.36%; All-In TIC of 2.54%
  - A Bank Qualified Bank Loan not to exceed $6,700,000 for the purpose of refunding the City's outstanding Capital Improvement Revenue Note, Series 2005 The loan will be secured by the City's Franchise Fees. Final maturity of September 1, 2020.
    - Awarded to SunTrust Bank at a rate of 2.45%; All-in TIC of 2.56%

Comparison of Some Recent Bank Transactions to a Bond Issue

- High "A" rated Florida County, CB&A revenue pledge, non-Bank Qualified interest rate
- 15 year maturity
- Estimated 0.60% savings on the interest rate versus a comparable bond issue
- Transaction Completed in March, 2011

	Bank Loan	Bond Issue	Difference
Par Amount of New Financing	$5,750,000	$5,800,000	$50,000
Cost of Issuance*	$42,000	$116,987	$74,987
Project Funds	$5,708,000	$5,708,000	$0
All-In Interest Rate of New Financing	**3.66%**	**4.26%**	**0.60%**
Total Debt Service	$7,463,485	$7,777,890	$314,405
Maximum Annual Debt Service	$512,506	$535,944	$23,438

Comparison of Some Recent Bank Transactions to a Bond Issue

- Low "AA" rated Florida County utility refunding issue, Bank-Qualified interest rate
- 16 year maturity
- Estimated 0.90% interest rate savings versus a comparable bond issue
- Transaction Completed in November, 2010

	Bank Loan	Bond Issue	Difference
Par Amount of New Financing	$16,900,000	$16,705,476	$194,524
Net Premium	$0	$391,476	($391,476)
Cost of Issuance*	$49,419	$335,906	($286,487)
All-In Interest Rate of New Financing	**2.94%**	**3.84%**	**0.90%**
Total Debt Service Savings	$2,884,274	$1,223,187	$1,661,087
Present Value Savings	$2,299,881	$927,026	$1,372,855
% of Savings of Refunded Bonds	14.36%	5.79%	8.57%