



Contact

Edward D. Stull, Jr.

Managing Director

20 N. Orange Avenue, Suite 1209

Orlando, FL 32801

(407) 426-9611

ed.stull@firstsw.com



The Debt Issuance Process and Financing Alternatives

August 9, 2011

City of Fernandina Beach, Florida

Table of Contents

The Debt Issuance Process Tab 1

- *Professionals Involved*

Development of a Financing Plan Tab 2

- *Determine the amount needed to fund improvements*
- *Identify available funding sources*
- *Determine type of debt sale*
- *Determine the appropriate potential revenue pledges*

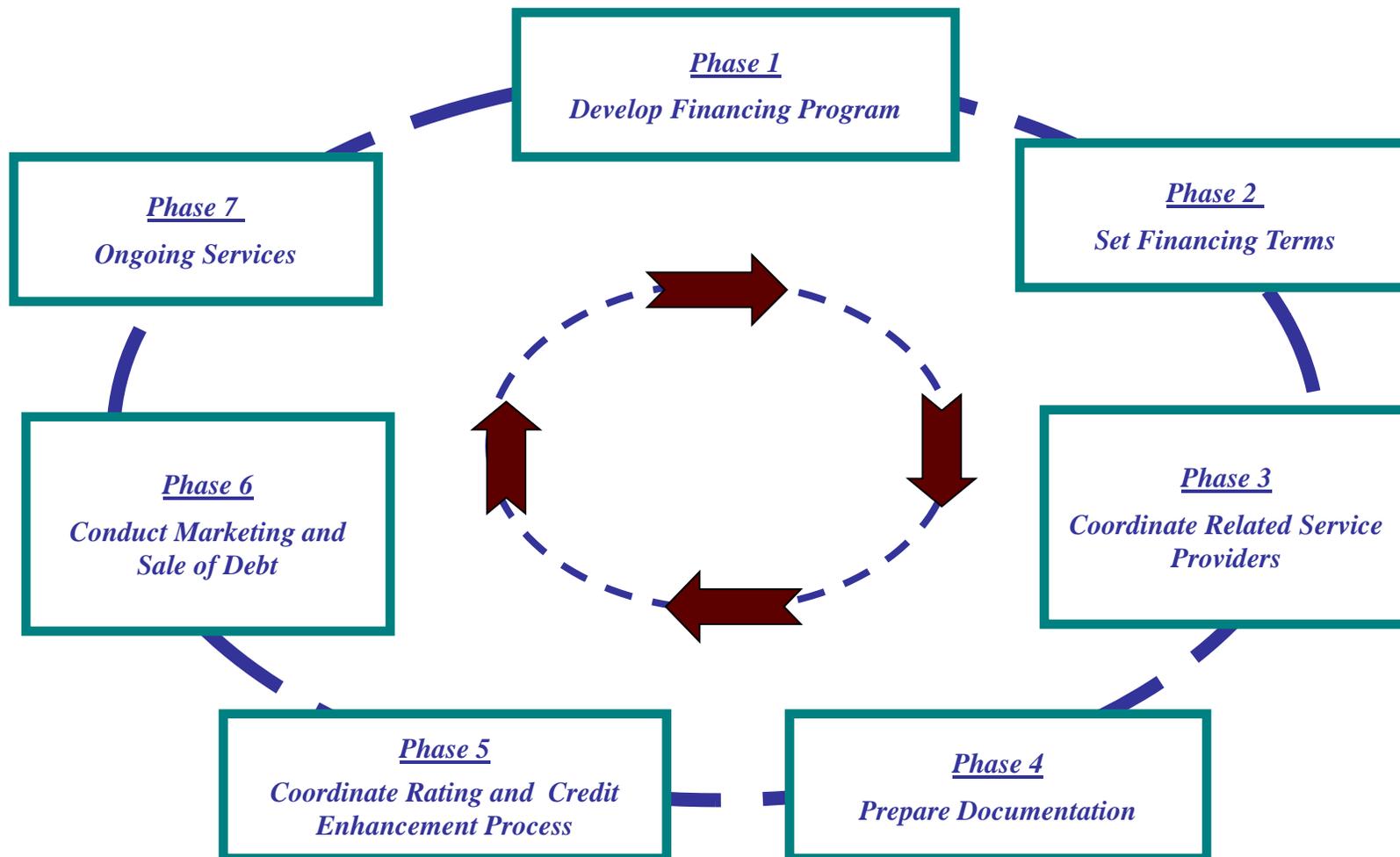
A Review of the City of Fernandina Beach Tab 3

The Debt Issuance Process

Tab 1



The Debt Issuance Process



The Debt Issuance Process

PHASE 1: DEVELOP FINANCING PROGRAM	PHASE 2: SET FINANCING TERMS	PHASE 3: COORDINATE RELATED SERVICE PROVIDERS
<ul style="list-style-type: none"> ⇒ Conduct Survey of Financial Resources ⇒ Review Existing Debt ⇒ Analyze Full-Range of Debt Alternatives ⇒ Develop Plan of Finance 	<ul style="list-style-type: none"> ⇒ Structure the Financing ⇒ Design Issue Features ⇒ Evaluate Market Innovations ⇒ Determine Method of Sale 	<ul style="list-style-type: none"> ⇒ 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
<ul style="list-style-type: none"> ⇒ Prepare Offering Documents 	<ul style="list-style-type: none"> ⇒ Develop Bond Rating Strategy ⇒ Evaluate Bond Insurance Recommendations 	<ul style="list-style-type: none"> ⇒ Coordinate Pre-sale and Pricing ⇒ Conduct Sale of Debt ⇒ Close Transaction ⇒ Prepare Transaction Summary
PHASE 7 ONGOING SERVICES		
<ul style="list-style-type: none"> ⇒ Conduct Post-Sale Review ⇒ Recommend Arbitrage Compliance and Asset Management Strategies ⇒ Maintain Continual Client Relations 	<ul style="list-style-type: none"> ⇒ Monitor Legislative and Regulatory Changes ⇒ Monitor Refunding Opportunities ⇒ Evaluate Market Innovations 	

Development of a Financing Program

Tab 2



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 pledged 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 pledged 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.**

A Review of the City of Fernandina Beach

Tab 3



Financial Challenges Facing Florida Municipalities

Major challenge is the reduction in local revenue sources due to:

- ***Ad Valorem Taxes***
 - *Decline in taxable property values*

- **Other tax revenue reductions**
 - *Half-Cent Sales Tax*
 - *Gas Tax*
 - *Impact Fees*
 - *Tourist Development Taxes*

- **Overall economic conditions**
 - *Slowdown in construction activity*

- **Overnight Investment Rates are near record lows**

- **Municipalities need to be proactive in addressing these issues**
 - *Mid-Year Budget Adjustments*
 - *Revenue Enhancements or cost reductions*
 - *Communication with the rating agencies.*

Revenues Generated by Millage

	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>
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

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:

	<u>Revenue Pledged</u>	<u>Pledged Through</u>	<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Principal and Interest Payments</u>	<u>Revenue Received</u>	<u>Estimated Percentage Pledged</u>
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		
					<u>2,688,824</u>	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		
					<u>122,718</u>	495,296	25%
Revenue Note, Series 2009	Net Marina Revenues, CRA Revenues	2024	1,300,000	1,237,000	114,480	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.

Comparison of a 15 Year and 20 Year Bank Financing ⁽¹⁾

	Fifteen (15) Year BQ <u>Bank Loan</u>	Twenty (20) Year BQ <u>Bank Loans</u>	<u>Difference</u>
Sources:			
Series 2011 Par Amount	\$2,470,000	\$2,470,000	\$0
Series 2012 Par Amount	\$2,335,000	\$2,335,000	\$0
Series 2015 Par Amount	\$1,035,000	\$1,035,000	\$0
Total Sources	\$5,840,000	\$5,840,000	\$0
Uses:			
Project Funds	\$5,735,000	\$5,735,000	\$0
Cost of Issuance	\$105,000	\$105,000	\$0
Total Uses	\$5,840,000	\$5,840,000	\$0
All-In True Interest Costs			
2011 - Market Rates + 0.50%	4.26%	4.56%	+0.30%
2012 - Market Rates + 1.00%	4.77%	5.08%	+0.31%
2015 -Market Rates + 2.00%	6.07%	6.32%	+0.25%
Total Debt Service	\$8,153,735	\$9,254,151	\$1,100,416
Maximum Annual Debt Service	\$547,231	\$465,449	(\$81,782)
Millage Rate Impact (FY 2011-12) ⁽²⁾	0.3481	0.2961	(0.0520)

(1) Preliminary / Subject to Change.

(2) Based upon collection rate of 95.7%.

Impact of \$5.735 Million in Project Financing on Millage ⁽¹⁾

Proposed Millage Rate for FY 2011-12

Operating	4.8759
Debt	0.2576
Total	5.1335

FY 2011-12 Proposed Budgeted Property Tax Revenues ⁽²⁾ **\$8,070,000**

Additional Tax Generated by a 1 mil increase ⁽²⁾ **\$1,572,027**

**Additional Millage Needed for Debt Service on a 15 Year Bank
Qualified Bank Loan** **0.3481**

Average Impact on Homeowner with Assessed Value of \$150,000
and Homestead Exemption **\$34.81**

**Additional Millage Needed for Debt Service on a 20 Year Bank
Qualified Bank Loan** **0.2961**

Average Impact on Homeowner with Assessed Value of \$150,000
and Homestead Exemption **\$29.61**

(1) Preliminary / Subject to Change.

(2) Based upon collection rate of 95.7%.