St. Lucie West Services District
Special Board Meeting Minutes
April 23, 2013, at 9:00 a.m.
450 SW Utility Drive
Port St. Lucie, Florida 34986

(Please note: This is not verbatim. A CD recording of the Board Meeting is available on file.)

Board Members Present

Harvey Cutler, Chairman
Everett Child, Vice Chairman (via conference call)
Charles Altwein, Secretary
Vincent D'Amico, Supervisor
Sal Mancuso, Supervisor

Staff Present

Dennis Pickle, District Manager, St. Lucie West Services District ("SLWSD")
Bill Hayden, Public Works Director/Assistant District Manager, SLWSD
Maddie Maldonado, Office Manager, SLWSD
Dan Harrell, District Counsel, Gonano & Harrell
Jason Pierman, Assistant District Treasurer, Special District Services, Inc. ("SDS")
Laura Archer, Recording Secretary, SDS

Also present were Kevin Mulshine and Rhonda Mossing of MBS Capital Markets, LLC; Leslie Downs of SunTrust; Bond Counsel Danny Tyler of Nabors, Giblin and Nickerson, P.A.; and Scott Schuhle of US Bank National Association.

Guests Present (Sign-In Sheet Attached)

A. Call to Order

Chairman Cutler called the Special Board Meeting to order at 9:03 a.m.

B. Pledge of Allegiance

C. Roll Call

Ms. Archer took roll, noting that all 5 Supervisors were present, including Vice Chairman Everett Child who appeared via conference call.

D. Public Comment

There was no public comment.

E. District Attorney

DA 1 – Consider Approval of Resolution No. 2013-09 Relating to Water Management Benefit Special Assessment Refunding Bonds, Series 2013

Resolution No. 2013-09 was presented, entitled:

RESOLUTION NO. 2013-09

A RESOLUTION OF ST. LUCIE WEST SERVICES DISTRICT APPROVING THE SALE AND TERMS OF SALE OF ST. LUCIE WEST SERVICES DISTRICT WATER MANAGEMENT BENEFIT SPECIAL ASSESSMENT REFUNDING BONDS, SERIES 2013 (THE "BONDS"); ESTABLISHING INTEREST RATE, MAXIMUM MATURITY DATE, AND REDEMPTION PROVISIONS THEREOF; APPOINTING A PLACEMENT AGENT FOR THE SERIES 2013 BONDS; APPROVING THE FORM OF FOURTEENTH SUPPLEMENTAL TRUST INDENTURE AND THE ESCROW DEPOSIT AGREEMENT AND AUTHORIZING THE EXECUTION AND DELIVERY THEREOF BY CERTAIN OFFICIALS AND OFFICERS OF ST. LUCIE WEST SERVICES DISTRICT; AUTHORIZING CERTAIN OFFICIALS AND EMPLOYEES OF ST. LUCIE WEST SERVICES DISTRICT TO TAKE ALL ACTIONS REQUIRED AND EXECUTE AND DELIVER ALL DOCUMENTS, INSTRUMENTS AND CERTIFICATES NECESSARY IN CONNECTION WITH THE ISSUANCE, SALE AND DELIVERY OF SAID BONDS; AUTHORIZING CERTAIN OFFICIALS AND EMPLOYEES OF ST. LUCIE WEST SERVICES DISTRICT TO TAKE ALL ACTIONS AND ENTER INTO ALL AGREEMENTS REQUIRED IN CONNECTION WITH THE REFUNDING OF THE REFUNDED BONDS; SPECIFYING THE APPLICATION OF THE PROCEEDS OF SAID BONDS; PROVIDING CERTAIN OTHER DETAILS WITH RESPECT TO SAID BONDS; AND PROVIDING AN EFFECTIVE DATE.

Bond Counsel, Danny Tyler, noted that there were 2 issues being presented today and indicated that he would summarize both, beginning with the Water Management Benefit Special Assessment Refunding Bonds, Series 2013. He stated that these bonds were being refinanced because of the low rates and because SunTrust had made an offer we could not refuse. Mr. Tyler noted that because of the refunding, we were able to reduce the stormwater benefit special assessments annually, which Mr. Mulshine will quantify for you. It was Mr. Tyler's belief that the savings were even more than what was anticipated. Mr. Tyler explained that the resolution related to the stormwater bond approves the refunding, the Supplemental Trust Indenture and the authorization for the Chairman and the Secretary to execute and deliver all the necessary documents.

Mr. Tyler went on to explain that the Utility Revenue Bonds, Series 2013, noted that this is not a refunding, but rather an issuance of bonds in an aggregate principal amount of approximately $5 Million in order to finance the expansion of the utility system. He further noted that approval of Resolution No. 2013-10 authorizes the execution and delivery of all of the necessary documents. Mr. Tyler indicated that he was happy to answer any questions, but noted that Mr. Mulshine was the person who had all the numbers information.

Chairman Cutler noted in the previous utility bond issue that there was a clause that required the District to increase the rates dependent upon the Consumer Price Index (CPI). He further noted that the Board had added a caveat that the District was not required to do that, that it would be at the discretion of the Board whether the rates were raised or not. Mr. Tyler somewhat agreed with Chairman Cutler's recollection regarding the original utility bond that is still out there, but clarified that the it was not that the rates would be raised according to the CPI, but rather that it would raise rates and maintain certain coverages, even though it was building up a massive amount of excess money, it did not count that excessive money. He noted that for this bond issue and the last bond issue, the bondholders have already pre-agreed, as bondholders, to the amendment which requires majority consent and the next time we redo the bonds that are insured out there, we will do the same thing and get that deemed consent by the purchase of the bonds and then we will be over the hump and that amendment will be effective, but that the amendment cannot be effective until we obtain the majority consent of the bondholders. Chairman Cutler asked if this issue does not apply here. Mr. Tyler indicated that they have received the approval, but it does not apply yet, because we have to have approval of a majority of all of the bondholders. He noted that we have the approval of SunTrust, but that is not a majority of all of the bondholders. Mr. Tyler clarified that the rate covenant applies with regard to all of the bonds and is calculated with respect to all of the bonds. He stated that it is not something that you can have different coverages that relate to different bond issues. He noted that the assessment transactions all stand alone, so you can have different covenants and coverages, but with the water & sewer transaction, they are all "parody bonds", which means that they all share in everything that is out there, so all you are doing is sharing in the same trust estate and by virtue of that, the rate covenant has to be the same with regard to all of the bonds that are out there and in order to amend the requirements for the coverage ratio, you have to have the majority of all of those bondholders. Chairman Cutler then asked for confirmation that it is not at the discretion of the Board whether we raise the rates or not. Mr. Tyler agreed to the extent that you are satisfying the rate covenant; that the Board could set them higher than that, but you cannot set them lower than what you have coveted. Mr. Harrell clarified that how you achieve the coverage, whether it's with a CPI adjustment or a periodic review of the rates, reducing your costs so that the costs sides goes down, that is within the discretion of the District, but what is not discretionary is that rate coverage component that your total revenue for the system has to equal the debt service and expenses, plus a percentage. Mr. Pickle clarified that everything Mr. Tyler and Mr. Harrell stated is correct; it is the same rate coverage and the same bond test. Mr. Pickle indicated that Chairman Cutler was discussing is to help entice SunTrust to do the refinancing of the 2000 Series Bonds, we put a caveat in indicating that we would look at the CPI and inflate the rates based on the CPI annually if we did not meet the bond test coverage, plus we had to have, he believes it was 90 days of reserves; we would at least have to exceed 90 days' worth of reserves or we would have to do the CPI increase; so we passed that as a rule, it was not part of the bond issuance, but it was to entice SunTrust to give us the lower rate back when we refinanced the Series 2000 Bonds and asked Mr. Harrell if his recollection was correct. Mr. Harrell indicated that it was something along those lines; in other words, it was a means of showing that there was a clear path to getting to the rate coverage; it was simply to demonstrate through your rate consultant and your operating folks that you had a way of achieving the coverage over the long term. Chairman Cutler indicated it was his desire to retain that flexibility that we are not required on a specific CPI number to change the rates. Mr. Harrell indicated that the District is obligated to maintain the coverage requirement; how you reach that coverage requirement is the District's problem. Secretary Altwein interpreted the discussion as in the event coverage is insufficient and the CPI does not satisfy the shortfall, then we have to increase the rate higher than the CPI in order to cover the bond coverage...or reduce operating expenses, as noted by Mr. Harrell. Mr. Pickle agreed with Secretary Altwein's interpretation. Mr. Pickle indicated that this year's CPI is 1.6%. Secretary Altwein then noted that he agreed with the Chairman in that he does not want to raise rates unless we really have to and indicated that he did not want to be put in the same position we were years ago when there was an automatic 5% increase demanded by the bond issue, as he seemed to recall. Mr. Mulshine clarified that Secretary Altwein's recollection was that that was at a time when we had debt service increasing every year and the District was a growing utility, so therefore the revenues needed to grow. Mr. Mulshine further pointed out that the District's rates have not been driven by the banks' covenant; but rather they are driven by the District's prudent budgeting over the last 5 years; thus no forced increase by the bank.

Mr. Mulshine then indicated that if Resolution Nos. 2013-09 and 2013-10 are approved today then upon conclusion of the meeting we would roll into a closing with the funds being wired tomorrow. He began with the Water Management Benefit Special Assessment, which everyone in the District pays. Mr. Mulshine indicated that costs were cut a little since the commitment rate of 2.44%, so the bonds are little smaller, which bottom line was a reduction of approximately $27; that reduction is now up to $28. The hope was that we would save $241,000 per year and is now a savings of $244,000 per year. Supervisor D'Amico asked if the current $298.06 assessment will now go down $28. Mr. Mulshine indicated that the numbers are little confusing because there is a maintenance charge in there and also a debt service charge; he noted that the $210 debt service charge would come down by $28.

A **motion** was made by Secretary Altwein, seconded by Supervisor D'Amico approving and authorizing the execution of Resolution No. 2013-09, including Schedule I and Exhibits A and B, approving the sale, terms of sale, and certain other matters relating to the District's Water Management Benefit Special Assessment Refunding Bonds, Series 2013, in substantially the form as outlined, with such revisions as the Board, in consultation with Bond Counsel, the Placement Agent, the District Manager, and other officials and consultants, deems appropriate.

Under discussion, Supervisor Mancuso asked if this was the refunding to which Mr. Mulshine affirmed. Supervisor Mancuso asked what the interest rate was and the total value. Mr. Mulshine indicated that the interest rate is currently 4.22% with a little over $20 Million outstanding. He further indicated that the Water Management Benefit Special Assessment Refunding Bond amount outstanding will reduce to $19,025,000 at a rate of 2.44%, a reduction of about 180 basis points. Chairman Cutler asked if it was insured. Mr. Mulshine indicated it was not; that it was the District's track record.

Secretary Altwein's **motion** was reiterated, seconded by Supervisor D'Amico approving and authorizing the execution of Resolution No. 2013-09, including Schedule I and Exhibits A and B, approving the sale, terms of sale, and certain other matters relating to the District's Water Management Benefit Special Assessment Refunding Bonds, Series 2013, in substantially the form as outlined, with such revisions as the Board, in consultation with Bond Counsel, the Placement Agent, the District Manager, and other officials and consultants, deems appropriate. Upon being put to a vote, the **motion** carried 5 to 0.

DA 1 – Consider Approval of Resolution No. 2013-10 Relating to Utility Revenue Bonds, Series 2013

Resolution No. 2013-10 was presented, entitled:

RESOLUTION NO. 2013-10

A RESOLUTION APPROVING THE SALE AND TERMS OF SALE OF ST. LUCIE WEST SERVICES DISTRICT UTILITY REVENUE BONDS, SERIES 2013 (THE "BONDS"); ESTABLISHING THE INTEREST RATE, MATURITY DATE, AND REDEMPTION PROVISIONS THEREOF; APPOINTING A PLACEMENT AGENT FOR THE BONDS; APPROVING THE FORM OF THIRD SUPPLEMENTAL TRUST INDENTURE AND AUTHORIZING THE EXECUTION AND DELIVERY THEREOF BY CERTAIN OFFICIALS AND OFFICERS OF ST. LUCIE WEST SERVICES DISTRICT; AUTHORIZING CERTAIN OFFICIALS AND EMPLOYEES OF ST. LUCIE WEST SERVICES DISTRICT TO TAKE ALL ACTIONS REQUIRED AND EXECUTE AND DELIVER ALL DOCUMENTS, INSTRUMENTS AND CERTIFICATES NECESSARY IN CONNECTION WITH THE ISSUANCE, SALE AND DELIVERY OF SAID BONDS; AUTHORIZING CERTAIN OFFICIALS AND EMPLOYEES OF ST. LUCIE WEST SERVICES DISTRICT TO TAKE ALL ACTIONS AND ENTER INTO ALL AGREEMENTS REQUIRED IN CONNECTION WITH THE CONSTRUCTION OF THE SERIES 2013 PROJECT; SPECIFYING THE APPLICATION OF THE PROCEEDS OF SAID BONDS; PROVIDING CERTAIN OTHER DETAILS WITH RESPECT TO SAID BONDS; AND PROVIDING AN EFFECTIVE DATE.

In anticipation of Secretary Mancuso's questions, Mr. Mulshine indicated that the Utility Revenue Bonds, Series 2013 size of that issue is $5.47 Million with a 20 year maturity with a bank option to put it back to the District after 15 years, but given how low their rates are, once again, we thought that was a risk worth taking because you have so much of the debt amortized within the first 15 years; and it is at a fixed rate of 2.43%. Mr. Mulshine made one last point indicating that the District has paid down so much debt and refreshed the Board's memory regarding a refunding of some bonds in 2011 and brought those down to 2.85%; we still have debt in an interest only mode and does not start maturing until 2033, which was left from the 2004 bond issue, which is about $11 Million that is at 5.25% to 5.5%, but a refunding on that will be maximized next because you cannot call those bonds until October 1, 2014. He further noted that as long as interest rates stay close to where they are, we would totally anticipate coming before you some time in the next 12 to 18 months to reduce those bonds. Chairman Cutler asked what kind of penalty there would be if paid prior to the call date. Mr. Mulshine indicated that the penalty is in the form of a written penalty and would require taking money today and putting it into an escrow and so new bonds would be issued today, but the problem is with the fed, keeping rates so low, the money you invested in the escrow would earn so little and since those bonds are out at 5%, the bonds still would not be called until October 1, 2014, but you would have money out there for the 18 months paying on it; which reflects an approximate 6% penalty or about a $600,000 penalty; not a written penalty, just the fact that you would lose about that much in interest earnings over that time. We call that negative arbitrage.

Chairman Cutler asked about the Cascades bond and how much was left. Mr. Mulshine indicated that it was down to a small amount and only a few years left and will run out. It was noted that there was 6 years left on the Cascades bond.

Mr. Harrell then asked for approval of Resolution No. 2013-10.

A **motion** was made by Secretary Altwein, seconded by Supervisor D'Amico approving and authorizing the execution of Resolution No. 2013-10, including Exhibits A, B and C, approving the sale, terms of sale, and certain other matters relating to the District's Utility Revenue Bonds, Series 2013, in substantially the form as outlined, with such revisions as the Board, in consultation with Bond Counsel, the Placement Agent, the District Manager, and other officials and consultants, deems appropriate. Upon being put to a vote, the **motion** carried 5 to 0.

F. District Manager
Action Items

DM 1 - Approval of the Investment Banking Agreement Regarding Bond Issuances

Mr. Pickle advised the Board that the Investment Banking Agreement Regarding Bond Issuances had been approved at the last Board Meeting and that no further action was required regarding this matter.

G. Adjournment

There being no further business to come before the Board, the Special Board Meeting was adjourned at 9:34 a.m. on a **motion** made by Secretary Altwein, seconded by Supervisor Mancuso. There were no objections.

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Chairman/Vice Chairman

Secretary/Assistant Secretary

Date Approved 05/07/13