

FINANCE COMMITTEE MEETING
THURSDAY, FEBRUARY 18, 1993, 4:30 PM

The Finance Committee met on Thursday, February 18, 1993 in room C of the Cape Fear Valley Rehabilitation Center at 4:30 PM.

Present: Marshall Faircloth, Chairman
Johnnie Evans
Billy King
Cliff Strassenburg, County Manager
John Nalepa, Finance Director
Torrey Johnson
John Carlisle
Fran Starnes
David Gray
Darrel E. Flanel
Robert Hester
Rhonda R. Davis, Deputy Clerk

AGENDA ITEMS:

1. Explanation of "derivative bond products" structure and "conventional bond" structure.
 - What is the difference?
 - What is best for CFVMC?
2. Discussion of Co-Managers for Underwriters -- necessity, number, who.
3. Hunton and Williams (bond counsel) -- need to negotiate a cap on out-of-pocket expenses.

Darrel E. Flanel advised that with the derivative bonds, we would take the payments and carve them up and sell them to different investors. The county would be responsible for paying a fixed interest rate at a fixed time. The county would get a cheaper rate on a long bond. There is a little more legal work involved with this type of bond. There is minimal risk involved and many hospitals have chosen to go this way. He presented some information from a Vermont medical center. They recommend that their clients use this basis rate.

Mr. Strassenburg stated that what the county and the hospital needs to know is which structure to pursue.

Mr. Flanel stated that with derivatives, you can dual track it. This preserves your options when going to market.

There was discussion about the structure of the agreement and that these decisions can be made when going to market. When you dual track, you can lock in two fees until the decision is made to buy the bonds.

David Gray - On the subject of co-managers; he feels they can handle the job without co managers. He will propose there be no co-managers, but a selling group and to allow everyone that submitted a proposal as a co-manager be in the selling group. He feels they can do a good job.

Mr. Flanel also stated he does not feel they need co-managers. He feels they can aggressively market this without them.

Commissioner Faircloth stated that he doesn't see a need for co-managers either. If we can have a selling group, we don't want co-managers.

Torrey Johnson advised that they had problems with the State and LGC in 1988 and had to get co-managers. Not having co-managers this time is not a problem with the hospital.

Commissioner King arrived at the meeting at 4:48 PM and was briefed on the discussions up to this point.

David Gray - The people who showed initial interest as co-managers can be in the selling group.

Questions were asked and answered by Mr. Gray and Mr. Flanel.

Mr. Strassenburg also advised the committee that information had been received from Hunton and Williams advising that they have decided to state a maximum fee. They stated they assumed their total fees and expenses would not exceed the upper end of the range they quoted of \$25,000.

Mr. Strassenburg stated he felt they were at the proper place to take this to the Board of Commissioners for a vote.

MOTION: Commissioner King offered a motion that the Finance Committee recommend to the Board of Commissioners that Shearson-Lehman Brothers be authorized to begin working and to make the necessary arrangements to go to market and to allow all of the underwriters who submitted a proposal as co-managers to be included in the selling group. There are to be no co-managers.

SECOND: Commissioner Faircloth

VOTE: UNANIMOUS

David Gray advised they were in a great position to move quicker than normal. As soon as they can get the insurance commitment and the legal work done, which would be in three weeks, they can start moving.

Mr. Strassenburg advised this topic can be added to the next meeting agenda for the Commissioners.

Commissioner King stated he would like to have the information together and to have it added to the February 23, 1993 agenda and that this item be discussed during the briefing session on February 19, 1993.

There was further discussion with Mr. Flanel.

Commissioner Evans arrived at 5:00 PM. Commissioner Evans was briefed on the actions and discussions during the meeting to this point.

Mr. Strassenburg advised the Local Government Commission no longer requires co-managers.

Mr. Gray advised he would give first priority to local orders.

Torrey Johnson stated he hopes they understood during the last meeting that they must have bond counsel. He asked this decision also be made at the Commissioners meeting.

Mr. Strassenburg - He will bring both the bond counsel and underwriters decision to the board on February 23, 1993.

David Gray stated they would like to use A.B. Carlton as their counsel.

Torrey Johnson - They will need to have a verification agent to stand behind and check the mathematics, accuracy of escrow, etc. The last time this was done, they were required to have a financial feasibility report. They would need to retain a verification agent which would need to be one of the larger public accounting firms.

Commissioner Faircloth asked what the fees for the verification agent would be.

Torrey Johnson stated at first he thought the fees would be from eight to ten thousand but has been told that is too high.

Darrel Flanel - The range of fees would be from four to seven thousand.

Commissioner King asked if a verification agent was a requirement. He was advised that it was.

Mr. Strassenburg stated the committee needed to decide if they wanted to entrust the choosing of a verification agent to the hospital.

Commissioner King stated he feels they should let the hospital choose a verification agent since they have experience in the task.

Torrey Johnson gave names of some accounting firms that might be used.

Commissioner Faircloth stated if the fees for the verification agent go out of the four to seven thousand dollar range they have quoted, he would like to be advised so that the committee can discuss it.

Meeting adjourned at 5:15 PM.