

FINANCE COMMITTEE MEETING
TUESDAY, AUGUST 12, 1997 10:00 AM
ROOM 564, COUNTY COURTHOUSE

PRESENT: H. Mac Tyson II, Chairman
Billy R. King, Commissioner
Ed G. Melvin, Commissioner

OTHERS: David Fischer, Craigie, Inc., (County Financial Advisor)
County Staff

The meeting was duly called to order.

INVOCATION: Commissioner Billy R. King

AGENDA ITEMS:

1. Interview of Underwriters for the Department of Social Services and Community Correction Center Financing.

Mr. Fischer briefed the Committee members prior to the first interview. He noted the goal of the Committee is to select a senior managing underwriter for the financing of the Social Services and Community Correction Center. Ten companies responded to the request for proposals. The companies are as follows:

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|----------------------------|-------------------------|
| 1. Robinson-Humphrey | 6. Nationsbank |
| 2. First Union | 7. Jackson Securities |
| 3. A.G. Edwards | 8. J. Lee Peeler & Co. |
| 4. Merrill Lynch | 9. J. C. Bradford & Co. |
| 5. Interstate/Johnson Lane | 10. Wachovia |

A letter of non-submittal was received from J. P. Morgan.

The field of ten has been narrowed down to four companies, they are: Robinson-Humphrey, First Union, A.G. Edwards and Merrill Lynch. These four were arrived at by looking at their experience and ability to distribute the bonds at the lowest cost to the County. All four also offered innovative ideas. Each company has been asked to limit their discussion during the presentation to the most appropriate financing structure for the County. He wants the committee to be able to compare apples to apples. Each company is to submit their fee proposal at the end of their presentation in a sealed envelope for the Committee to discuss after the interviews. Mr. Fischer cautioned the Committee not to select the lead underwriter based on their fee. The Committee should look at the company's ability to sell these COPs. The County will need a lead manager and two or three co-managers. The co-managers are not in the group to be interviewed during this meeting. The fee quote will be for the entire group (including co-managers).

Mr. Strassenburg noted a certain fee will be required to go to the co-managers. The Committee needs to settle on co-managers during this meeting, as a recommendation for the lead and co-managers needs to go to the full board of Commissioners for approval.

Mr. Fischer noted the County wants to select co-managers that compliment the senior manager. A national company should be selected as the senior manager and regional and state companies for the co-managers.

1. Robinson-Humphrey interview.

Mr. David Gray made the presentation for Robinson-Humphrey. Mr. Gray presented a proposal to the Committee. He discussed the County's current debt and reviewed different financing plans available to the County. COPs for the jail project were added to the overall plan. He discussed reserve funds and mentioned work done for the City of Durham and Greensboro where no reserve funds were used.

Mr. Fischer asked Mr. Gray how co-managers would be involved with the issue.

Mr. Gray advised Robinson-Humphrey has experience with co-managers. They are a retail firm. They would lead with the local market first. It would be structured so that Cumberland County and North Carolina orders get first priority. They would give support to the co-managers in the pre-marketing phase. They have worked with a variety of co-managers and have had no problems. Mr. Gray then noted Robinson-Humphrey is the number one ranked negotiated tax-exempt underwriting firm in the nation, North and South Carolina. They have North Carolina and Regional Certificates of Participation expertise. They have the largest retail sales force in North Carolina and they have a long-standing commitment to Cumberland County.

2. First Union interview.

Mr. Doug Carter and Joe Niggel made the presentation for First Union. Mr. Carter and Mr. Niggel presented their proposal to the Committee. Mr. Niggel discussed the structure of total capital and the overall financing plan. He noted S&P does have concern with thirty year debt. First Union looked at CABs (Capital Appreciation Bonds). He reviewed the marketing of the COPs. They will target retail and retail funds - County, Eastern North Carolina region and North Carolina. He noted First Union has been successful in using co-managers. They have 500 brokers at 250 offices. He noted the County currently has 100 million in debt now and if the proposed projects come to fruition, that amount will double. Mr. Niggel then discussed means to mitigate immediate budget impact for the County. He discussed capitalized interest, deferral of principal, variable debt and the use of CABs if they make sense in the market place. He also noted First Union has purchased over 60% of all the County's GOs within the last five years.

Mr. Fischer asked Mr. Niggel and Mr. Carter if they felt the County will need a reserve fund.

Mr. Niggel stated a reserve fund is a good possibility. He noted triple A communities have had the reserve fund eliminated.

Mr. Fischer then asked Mr. Carter about First Union working with co-managers.

Mr. Carter stated First Union is very receptive to co-managers. The co-managers would be involved at all levels.

Mr. Niggel stated First Union has demonstrated a history and treatment of co-managers. They would assure the co-managers a certain percentage of the deal. They would be willing to follow the County's lead to see what they think is fair.

3. A. G. Edwards interview.

Mr. Dick Layton, Mr. Edwin Fort and Ms. Lynn Legatski made the presentation for A.G. Edwards and Sons, Inc.

Mr. Forte presented the proposal to the Committee and reviewed current market conditions. He presented and discussed a recommended financing structure for 25 years, insured with published underlying ratings, DSRF Surety and Master Trust Agreement. A master trust agreement will give the County the flexibility to add the jail facility project at a later time. He also discussed the upgrade of the County's underlying credit rating. Mr. Forte noted A.G. Edwards ranks as the sixth largest brokerage firm nationally measured by the number of branch offices and the fourth largest measured by the number of brokers.

Mr. Fischer asked Mr. Layton what type of percentage of the COPs would be going to retail, particularly in-state.

Mr. Layton stated twelve to fifteen percent of the issue would be going retail. They will try hard to generate retail demand.

4. Merrill Lynch interview.

Mr. Joe Marion, Phil Williams, Frank King and Scott Wiggins made the presentation for Merrill Lynch. Mr. King stated their firm would look at the existing COPs and layer in the new ones. The jail project could be layered in and this would minimize the budget impact. He then reviewed how the COPs would be promoted. They have 69% local and 36% state market share. A pre-sale retail order period assures local availability. They expect retail will purchase one-half of the County's COPs.

Mr. Fischer asked about the use of co-managers by Merrill Lynch.

Mr. King stated that typically all firms cover the same investors. The County will benefit by bringing more people with retail. They would have three or four firms with good local customers.

Questions were asked by Mr. Fischer and responded to by Mr. King.

Mr. Fischer then reviewed the proposals from each company. He narrowed the four firms down to two based on the interviews. His decision was based on the company's ability to add to the financing team and their knowledge of County financing. The two companies he felt would make the best lead managers were First Union and Merrill Lynch.

Merrill Lynch put a lot of thought into looking at the County's overall debt. They had a good net proposal and discussion of using three co-managers. The negative point about Merrill Lynch would be their size. They will be pricing deals all over the country. The County wants underwriters and sales people who will not be diverted by sales in other states. They want them to focus on Cumberland County and North Carolina.

He then stated First Union's staff and bankers have the most intimate knowledge of the County. They have experience in COPs issues in the state. They have the best track record in the state on competitive bids. First Union is primarily an institutional firm.

Commissioner King asked what kicked Robinson-Humphrey out. He noted they did good work on the financing for the coliseum project.

Mr. Fischer stated he had a discussion with his firm's trading desk about underwriting. The County wants someone who would work well with co-managers. He feels the other firms would work better with co-managers. He noted all four finalists were very good.

Commissioner Tyson asked Mr. Fischer if there was anything with regard to the amount of money the County will spend that would weigh in the decision.

Mr. Fisher replied there was no difference in the amount of money the County will spend from the way they are structuring the deal up-front. Some of the companies could save two to three basis points over the life of the project. That amount would far outweigh any up-front fees.

Commissioner Melvin asked if there was any negative information about Robinson-Humphrey the Committee did not know about.

Mr. Strassenburg stated there was no negative information about Robinson-Humphrey.

Commissioner Melvin asked the staff to give their opinion of the candidates.

Mr. Strassenburg stated he was most impressed with First Union and least impressed with A.G. Edwards.

Mr. Fischer then opened the bid envelopes containing the company's fees for underwriting. The results were as follows:

First Union - \$5.83
Merrill Lynch - \$5.06
Robinson-Humphrey - \$5.079
A.G. Edwards - \$6.25

Neil Yarborough then gave scenarios for groups with different lead managers: Merrill Lynch (lead), First Union, Jackson Securities and one additional firm (co-managers). Robinson-Humphrey (lead), Jackson Securities and one additional firm (co-managers), First Union (lead), Merrill Lynch or Robinson-Humphrey, Jackson Securities and one additional firm (co-managers).

Mr. Strassenburg noted Wachovia could also be used as a co-manager.

MOTION: Commissioner King offered a motion to select Robinson-Humphrey as the lead underwriter with First Union, Wachovia and Jackson Securities as co-managers.
SECOND: Commissioner Melvin
VOTE: UNANIMOUS

2. Other Committee Concerns.

Commissioner Tyson presented a letter and a copy of a resolution adopted by the Board on September 7, 1982 and asked that they be made a part of the official minutes. He referenced the concern he has with a particular County contract. He noted Commissioners Melvin and King were not aware of that the contract in question was on a continuing basis and extended by Mr. Strassenburg without Board approval.

Mr. Strassenburg noted the amount in question was listed in the County budget for contracts. The amount in question was in the County Attorney's budget for his contract. and the Chairman of the Board of Commissioners signed the contract.

Commissioner Tyson advised he was not aware this contract was being voted on and no other member of the Committee was aware of it. He noted he has no personal conflict with the County Attorney. He stated he would feel better if all the cards are "face up". He asked if there were any other contracts that are approved without specifically being approved by the Board of Commissioners.

Mr. Strassenburg advised there are all kinds of contracts approved without being presented to the Board. These contracts would include janitorial contracts and numerous others. The Board of Commissioners operated this way before he was County Manager and it is the way the Board has operated since then.

Commissioner Tyson stated he would like to be very much informed on these matters. He also noted a portion of the resolution adopted on September 7, 1982 which states the County Manager shall submit to the individual Commissioners a monthly listing of all transfer of monies from one line item to another within the same department. He noted he has received no such report.

Mr. Strassenburg clarified that the report had not been given to the Commissioners.

Commissioner Tyson asked that the resolution be adhered to and that the Board of Commissioners begin receiving the report as outlined in the resolution.

Mr. Strassenburg advised he could do that.

Commissioner King asked if the RFPs for bond counsel would come to the Finance Committee.

Mr. Strassenburg stated the RFPs for bond counsel would go to the Finance Committee and a meeting will be scheduled as soon as they are ready.

Meeting adjourned at 1:04 PM.