Selected Issues in Public Finance

Types of Financing

Debt Engineering and Management

Henry Reyes
Raymond James
Managing Director, Public Finance

February 4th, 2005

Geoffrey Finley
Raymond James
Analyst, Public Finance
# Table of Contents

- **Raymond James and Public Finance** 1
- **Infrastructure Finance** 2
- **Transportation Finance** 3
- **Convention Centers, Stadiums, and Arenas** 4
- **Development Finance** 5
- **Tobacco Settlement Bonds** 6
Table of Contents

Health Care Facilities 7
Water and Sewer Bonds 8
Debt Management & Financial Engineering 9
Use of Variable Rate Debt A
Interest Rate Swaps B
Raymond James Overview

- Full-service securities firm founded in 1962 and public since 1983
- Listed on the New York Stock Exchange under the symbol “RJF”
- Major presence in North America and Europe
  - Currently over 5,200 financial advisors, with offices in all 50 states; approximately 1.3 million accounts*
  - Member of the Fortune 1,000. Ranked 11th among securities firms and 9th among retail brokers.
  - 26 North American investment banking and institutional sales offices*
  - European operations in London, Paris, Geneva, Brussels, and Düsseldorf*
- Over 440 capital markets professionals organized along industry and product lines, providing a full spectrum of investment banking and capital markets services*
  - Powerful retail and institutional distribution capabilities

*RJF data as of February 1, 2005.
Raymond James is a full-service financial firm focused on providing investment banking and asset management services to a wide range of institutions and individuals.

- **Retail Brokerage**
  - Domestic Retail Brokerage
  - Canadian Retail Brokerage
  - International Retail Brokerage

- **Fixed Income & Equity Capital Markets**
  - Public Finance
  - Municipal Sales, Trading & Research
  - Municipal Underwriting
  - Corporate Finance
  - Equity Sales, Trading & Research
  - Equity Syndicate

- **Asset Management**
  - $17 billion in institutional client accounts
  - Eagle Asset Management
  - Heritage Asset Management
  - Awad Asset Management
Fixed Income Department

- Consistent growth over the last 5 years in both employees and revenue

**Raymond James Combined Fixed Income Employees**

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>219</td>
</tr>
<tr>
<td>2001</td>
<td>253</td>
</tr>
<tr>
<td>2002</td>
<td>269</td>
</tr>
<tr>
<td>2003</td>
<td>269</td>
</tr>
<tr>
<td>2004</td>
<td>263</td>
</tr>
</tbody>
</table>
Total Market Access & Coverage

- **National Distribution**
  - Ranked 3rd nationally by number of offices
  - 5,200 sales representatives nationwide
  - 10th largest municipal institutional sales force

- **Broad Investor Base**
  - Not limited to certain investor types
  - Coverage of entire spectrum of retail investors
  - Exclusive coverage of many mid-size institutions not covered by other firms

- **Taxable Distribution**
  - Full-time dedicated taxable municipal bond trader
  - 106 taxable sales professionals
  - Web site devoted solely to taxable municipal bonds
    (www.rjtaxablemunis.com)

- Providing complete market coverage to ensure the lowest possible interest cost
Retail Distribution Capabilities

- 5,200 Financial Advisors located in 2,200 offices nation-wide, with 20 offices in Alabama
- Largest Retail Firm in the Southeast
- Extensive Municipal Securities Retail Network, supported by 7 Municipal Retail Traders
10 public finance offices nationwide

- National resources, regional expertise
What is Public Finance

**Project Finance**
- Water and Sewer Utility
- Toll Roads
- Airports
- Mass Transit
- Arena Finance

**Securitization/Asset Backed**
- Personal Income Tax (NYC-TFA)
- Sales Tax
- Gas Tax
- Tobacco Settlement

**Has “Corporate Finance Aspects”**
- Hospitals
- Utilities

**Special Situations**
- Strategic Business Advisors
- Mergers and Acquisitions
- Asset Liability Management
- Real Estate Financing
- …Numerous Others
Public Finance Expertise

- Wide range of experience and expertise
- Full service investment banking

- Public Utility
- Health Care
- Housing
- Other Revenue
- General Obligation
- RJ Public Finance
- Project Finance
- Taxable Financings
- Transportation
Note: Trend in “Mega Deals” has slowed recently – 21 deals ($45.974 billion) over $1.0 billion in par amount issued in 2002, 20 deals ($41.901 billion) issued in 2003, and 20 deals ($36.251 billion) issued in 2004.
2004 Market Volume
By Sector

<table>
<thead>
<tr>
<th>Market Sector</th>
<th>Volume ($000s)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development</td>
<td>6,415,500</td>
<td>1.79%</td>
</tr>
<tr>
<td>Education</td>
<td>96,032,200</td>
<td>26.78%</td>
</tr>
<tr>
<td>Electric Power</td>
<td>8,130,800</td>
<td>2.27%</td>
</tr>
<tr>
<td>Environmental Facilities</td>
<td>5,528,200</td>
<td>1.54%</td>
</tr>
<tr>
<td>Health Care</td>
<td>27,871,200</td>
<td>7.77%</td>
</tr>
<tr>
<td>Housing</td>
<td>21,462,400</td>
<td>5.99%</td>
</tr>
<tr>
<td>Public Facilities</td>
<td>8,560,500</td>
<td>2.39%</td>
</tr>
<tr>
<td>Transportation</td>
<td>32,255,000</td>
<td>9.00%</td>
</tr>
<tr>
<td>Utilities</td>
<td>33,197,600</td>
<td>9.26%</td>
</tr>
<tr>
<td>General Purpose</td>
<td>119,098,500</td>
<td>33.22%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$358,551,900</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>
Raymond James provides its clients access to all tiers of potential investors.
Value Added Marketing Services

Pre-Marketing

- Determine marketing conditions – new issue market, interest rates & pricing considerations
- Determine potential investors and provide information on the credit

Research

- RJ research analysts review proposed bond issue
- Provide market feedback
- Distribute report on structure and credit to sales force

Sales Force

- Investment bankers present credit to sales force at weekly meeting
- Distribute research reports to potential investors
- Continuously develop interest among the investor community

Post-Transaction

- Establish well-defined secondary market
- Continue to keep the credit in front of investors
- Establish benchmarks for pricing in subsequent offerings

Throughout this process, Raymond James will continue to monitor market conditions, communicate with potential investors, and educate the market on the strength of the credit.
Highlighted National Transactions

$166,550,000
PA Intergovernmental Cooperation Authority
Senior Manager
Special Tax Revenue Refunding Bonds Series 2003
June 2003

$111,175,000
Northampton County General Purpose Authority, PA
Senior Manager
County Agreement Revenue Bonds Series 2001
December 2001

$66,945,000
Spartanburg Sanitary Sewer District, SC
Senior Manager
Sewer System Revenue Bonds Series 2003 A&B
July 2003

$66,000,000
Oklahoma City School District, OK
Sole Manager
General Obligation Bonds, Series 2002
February 2002

$608,345,000
State of New Jersey
Co-Senior Manager
General Obligation Bonds, Series 2001
October 2001

$237,415,000
MA Bay Transportation Authority
Co-Senior Manager
Senior Sales Tax Bonds Series 2003
January 2003
Highlighted Regional Transactions

1. **$600,000,000**
   - **$400,000,000**
   - Jefferson County, AL
   - Schools
   - Senior Manager
   - Limited Tax Warrants, Series 2004A & 2005A
   - December 2004 & February 2005

2. **$952,695,000**
   - Jefferson County, AL
   - Sewer System
   - Senior Manager
   - Capital Improvement Warrants, Series 1999
   - March 1999

3. **$372,761,143**
   - **$236,700,000**
   - Tampa Bay Water, FL
   - Senior Manager
   - Utility System Revenue Bonds, Series 1999 & Series 2001 A
   - September 1999 & October 2001

4. **$300,000,000**
   - Birmingham, AL Water Works and Sewer Board
   - Senior Manager
   - Water and Sewer Revenue Bonds, Series 2002 B
   - September 2002

5. **$326,365,000**
   - Broward County Resource Recovery
   - Senior Manager
   - Revenue Bonds, Series 2001
   - February 2001

6. **$239,025,000**
   - Hillsborough County Aviation Authority, FL
   - Senior Manager
   - Transportation Revenue Bonds Series 2003 A&B (Tampa Airport)
   - February 2003
Highlighted Innovative Transactions

- **$81,500,000**  
  City of Gulf Breeze  
  Capital Funding Revenue Bonds, Series 1997A  
  (Municipal Exempt CPI Bonds)

- **$129,716,000**  
  Dade County  
  Public Improvement GO Bonds, Series H, I, CC, DD  
  (Call Waiver Program)

- **$239,025,000**  
  Hillsborough County Aviation Authority  
  Tampa International Airport Revenue Bonds Series 2003  
  (First use of PFCs)

- **$50,500,000**  
  Mississippi Legal Settlement Trust 2001-A Bonds  
  (Taxable Securitization of MSA Legal Payments)

- **170,008,377**  
  Miami-Dade County  
  Subordinate Special Obligation Bonds Series 1997 A, B, C  
  (40-year Zero Coupon Bonds with Hedge Bond Structure)
Overview of Infrastructure Finance

- **General Government Borrowing**
  - Bricks and mortar
  - Correctional facilities
  - Public safety
  - Education
  - Open Space acquisition
  - Parks and recreation
  - Equipment
  - Technology
  - Pension Obligation bonds
  - Road and bridge repair and replacement

- **Transportation Borrowing**
  - Pay-as-you-go
  - General capital borrowing
  - Debt finance utilizing excise taxes/user fees
  - Toll facilities
  - Federal financing models
Overview of Infrastructure Finance

- **Quasi-Public Authorities**
  - Airports
  - Water and Sewer
  - State Revolving Funds
  - Transportation and Transit
  - Public Power
  - Convention Centers/Sports Facilities

- **Housing Finance Agencies**
  - Single Family
  - Multi Family

- **Special Districts**
  - Tax Increment / Community Redevelopment
  - Development Districts

- **Not-For-Profits**
  - Hospitals
  - Education
Commitment to Surface Transportation Issuers

- The Raymond James Transportation Team was established in recognition of the specific expertise necessary to adequately serve transportation issuers.

- Raymond James has served and/or is currently serving on the Finance Team for several of the nation’s largest surface transportation issuers nationally including:

<table>
<thead>
<tr>
<th>Issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miami-Dade County Expressway Authority (Co-Senior)</td>
</tr>
<tr>
<td>Massachusetts Bay Transportation Authority (Co-Senior)</td>
</tr>
<tr>
<td>Orlando-Orange County Expressway Authority (Co-Senior)</td>
</tr>
<tr>
<td>Metropolitan Transportation Authority</td>
</tr>
<tr>
<td>NYS Thruway Authority</td>
</tr>
<tr>
<td>Foothill/Eastern Transportation Corridor Agency</td>
</tr>
<tr>
<td>Massachusetts Turnpike Authority</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Route 3 North Transportation Improvement Authority</td>
</tr>
<tr>
<td>Georgia Road &amp; Tollway Authority and GARVEE Bond Program</td>
</tr>
<tr>
<td>Port Authority of NY &amp; NJ</td>
</tr>
<tr>
<td>New Jersey Transit Corporation</td>
</tr>
<tr>
<td>New Jersey Turnpike Authority</td>
</tr>
<tr>
<td>Triborough Bridge &amp; Tunnel Authority</td>
</tr>
<tr>
<td>New Jersey Transit Trust Fund Authority</td>
</tr>
</tbody>
</table>
Elements of a Comprehensive Transportation Finance Plan

- Pay–As-You-Go cash funded program
- Debt financing utilizing excise taxes/user fees
- Toll facilities
- Implementing Federal financing models
- Design Build
Pay-As-You-Go Cash Funded Program

- Critical building block of any comprehensive transportation financing program

- Produces a balanced strategy between debt and cash by reducing reliance on the capital markets by aiming for a 50/50 cash/debt ratio

- Cash financing buildings system equity and provides potential debt service coverage on bonds

- Limits the ability to accelerate/advance a construction program
Potential Borrowing Vehicles

**Highway Revenue Bonds**
Funding projects with the use of a dedicated long-term State and/or local revenue source

**Annual Appropriation Bonds**
Financing highways with State revenue sources possibly enhanced by federal funds

**Grant Anticipation Notes**
Bridging the gap between when expenditures reimbursable by third-party grants are made and when the funds are received
Highway Revenue Bonds

Typically secured by State highway user tax receipts and/or excise taxes Sales taxes
- Petroleum and Motor fuel taxes
- Motor vehicle registration fees
- Motor vehicle license fees
- Penalties and fines

Diversity and stability of the pledged revenue stream
- State’s economy
- Qualitative and quantitative characteristics of the pledged revenues

Governmental support
- Importance of highways and roads in overall spectrum of infrastructure needs
Highway Revenue Bonds (continued)

- **Program management**
  - Quality of planning, construction management, maintenance, and inspection

- **Coverage of debt service**
  - Vulnerability to declines in revenue
  - Historic coverage sufficient to meet dips

- **Legal and practical restrictions to additional debt issuance**
  - Additional bonds test should ensure that coverage will not be diluted to threshold level
Toll Road Revenue Bonds

Project feasibility
- Construction costs: complex nature of capital improvements
- Studies by independent engineers
  - Traffic
  - Construction

Traffic demand and trends
- Level of congestion/necessity of road
- Types of trips traveled (business/recreation/commuter)
- Composition of traffic (commercial long haul vs. local discretionary vs. local required)
- Vulnerability of traffic to business cycles, motor fuel shortages and price escalations
- Variation in traffic demand due to economic changes, construction and competition.

Competition
- Availability and capacity of free alternative routes to the tolled facilities
- Plans for future competing facilities
Highway Revenue Bonds – Toll Roads

- Economic strength and diversity of toll road region
  - General demographics
  - Leading employers
  - Employment and labor force trends
  - Wealth and income indicators
  - Retail sales activity
  - Business activity

- Quality of management
  - Level of cooperation and management’s overall ability to coordinate activities
  - Coordination of planning between DOT, regional and local transportation authorities and the private sector
  - Quality of maintenance
  - Budgeting process
  - Authority/Procedures to increase tolls

- Strength of legal provisions
  - Additional bonds test
  - Common ratio used in a toll covenant is approximately 1.25x
  - Including only historical revenues is a strong test
  - Debt service reserve fund requirement
  - Funded at one year’s debt service provides significant protection
  - Enhanced security with additional revenue pledge (highway user tax, motor vehicle tax, etc.)
Rating Levels and Risk Spectrum

Indicative DSCR Ranges for Toll Road Securitization Transactions

<table>
<thead>
<tr>
<th>Rating Category</th>
<th>Debt Service Coverage Range* (Including Tail)</th>
</tr>
</thead>
<tbody>
<tr>
<td>“AAA”</td>
<td>2.0x-plus</td>
</tr>
<tr>
<td>“AA”</td>
<td>1.75x to 3.0x</td>
</tr>
<tr>
<td>“A”</td>
<td>1.5x to 2.5x</td>
</tr>
<tr>
<td>“BBB”</td>
<td>1.25x to 2.0x</td>
</tr>
</tbody>
</table>

Based on Fitch Adjusted DSCRs. These are based on Fitch Adjustment cash flow and Fitch adjusted debt service (adjusted interest Rates and notional amortization where applicable).

Impact of Key Risks on Required Coverage Levels

![Diagram showing the impact of key risks on required coverage levels](image)

Source: Fitch Ratings
Grant Anticipation Revenue Vehicles (GARVEES)

- Grant anticipation revenue vehicles are a popular state-authorized debt instrument to advance construction for highway projects.

- The primary security for these debt instruments consist of federal transportation grants.

- There are two types of GARVEE bonds: direct pay structures and indirect reimbursement based structures.

- Through March 2004, approximately 16 states and/or state agencies have issued approximately $10 billion in GARVEE debt instruments.

- The following table details several states and transit authorities that have issued GARVEE debt instruments in the past, including details on security, ratings, purpose, etc.

- Several other states, including Indiana, Maryland, Nevada, Georgia, Florida and the Virgin Islands are considering issuing GARVEE-related debt in the upcoming few years.

- Ratings have been fairly high (A through AAA) for these debt instruments due to the rating agencies’ positive view of the general strengths associated with federal surface grant transportation programs.

- The local matching share (minimum of 20%) has been through non-federal contribution or a payment-by-payment match, or a separate series of bonds secured from non-federal sources.
Most convention centers, stadiums, and arenas do not generate enough revenues to pay operations and maintenance and repay capital expense.

- Typically require governmental financial support.

- **Three basis financing approaches:**
  1. General Obligation Bonds
  2. Lease Revenue Bonds
  3. Dedicated Tax Revenue Bonds
History of Facility Financing

**First Generation**
Bonds Supported by General Fund Revenues

**Second Generation**
Bonds Supported by Revenues Directly or Indirectly Linked to Economic Development

**Today**
Private Sources
Public Sources

Facility
Facility
Facility
# Basic Financing Approaches

<table>
<thead>
<tr>
<th>Approach</th>
<th>Key Features</th>
<th>Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Obligation</strong></td>
<td>- Full-faith and credit of the municipality is pledged&lt;br&gt;- Usually strongest form of financial support&lt;br&gt;- May require voter approval</td>
<td>Requires most political support</td>
</tr>
<tr>
<td><strong>Lease Revenue</strong></td>
<td>- Unspecified commitment to pay debt services&lt;br&gt;- Lower rating than general obligation pledge&lt;br&gt;- Preserves GO capacity</td>
<td>Appropriation based approach is more flexible than GO approach</td>
</tr>
<tr>
<td><strong>Dedicated Tax Revenue</strong></td>
<td>- Specific taxes are allocated to pay back the bonds&lt;br&gt;- Degree of leverage is dependent on required coverage&lt;br&gt;- Coverage is determined by credit quality of revenue stream</td>
<td>Can use ancillary revenues generated by the facility (e.g., hotel tax, care rental tax)</td>
</tr>
</tbody>
</table>
Credit analysis for lease revenue bonds centers on the concept of “essentiality”.

Credit quality (i.e., rating, cost of funds) proportional to “essentiality” of project.

High

Jails
Water & Sewer
Hospital

Low

Governments
Office Buildings

Convention
Centers
Stadiums

Parks

Golf
Courses
Examples of Dedicated Tax Sources

- Hotel/motel room taxes
- Food and beverage taxes
- Rental car taxes
- Taxi fare surcharges
- General sales taxes
- Lottery receipts
- Construction industry/building trades surcharges
- Developer fees
- Tax increment revenues
- Utility taxes
Credit analysis for dedicated tax revenues centers on concept of debt service coverage

Debt Service coverage = Net Revenues / Debt Service

Required coverage levels determined by all the various credit factors

The more broad based the tax the lower the required coverage

Ability to leverage growth in revenues is limited (but improving)
Debt Service Coverage
Structuring Approaches

Debt Capacity = $135,000,000*

Historical Revenues (growth = 0%)

1.5x Debt Service Coverage

Debt Service

*Assumes 25 years @ 5.5%
Debt Service Coverage
Structuring Approaches

Revenues (growth = 2%)

Debt Capacity = $165,000,000

Increasing Debt Service / Single Lien

1.5x Debt Service Coverage
Debt Service Coverage

Structuring Approaches

Level Debt Service / Dual Lien

- Revenues

- Junior Lien Debt Service

- Senior Lien Debt Service

- 2.5x Senior Lien Debt Service Coverage

Debt Capacity = $165,000,000
Creative Structures Capitalize Tax Revenue Growth

Debt Service Coverage
Structuring Approaches

Back-up
Governmental pledge can allow more leverage of future growth

Revenues
(growth = 3.5%)

Debt Capacity = $200,000,000

1.4x Coverage

Traditional Coverage
Year
Enhanced Coverage
Key Credit Issues

- Competitive positioning
- Hotel stock and proximity to the convention center
- Historical operations
- Utilization rates
- Economic and commercial activity
- Tourism
- Historical and projected revenues
- Political support
Key Security Provisions

- Reasonable coverage

- **Limited reliance on revenue growth**
  - Insurers and rating agency giving more credit for growth recently

- Debt service reserve

- Limits on additional bonds
  - Reliance on historical revenues versus revenue projections

- Backup pledge of revenues
Issues Regarding Sports Facilities

- Increasing Cost of Sport Facilities
  - Anti Tax Sentiment

- From the “in favor” Public Point of View
  - Seen as Integral Part of Economic Development Plan
  - Invigorates Downtown Areas
  - Attracts Sports-Generated Commercial Activity and Tourism
  - Enhances Community Pride and Cohesion
  - Improves Quality of Life
  - Necessary for League Expansion
Issues Regarding Sports Facilities

- Increasing Value of Sport Facilities

- From the “Private” Point of View
  - State-of-the-Art Facilities Provide Increased Profitability
  - Affects Team’s Ability to Invest in Player Talent
  - Required by Ownership Changes
  - Necessary for League Expansion
Recently Completed Stadiums and Arenas

**NFL**
- Washington Redskins
- Baltimore Ravens
- Tampa Bay Buccaneers *(Public)*
- Denver Broncos
- New England Patriots *(Private)*

**MLB**
- Atlanta Braves
- Arizona Diamondbacks
- Seattle Mariners

**NBA**
- Washington Wizards
- Atlanta Hawks
- Denver Nuggets
- Indiana Pacers
- L.A. Clippers
- L.A. Lakers
- Miami Heat
- Toronto Raptors

**NHL**
- Nashville Predators
- Washington Capitals
- Florida Panthers
- Atlanta Thrashers
- Carolina Hurricanes
- Colorado Avalanche
- L.A. Kings
- Toronto Maple Leafs
# Franchise Valuations

Prices for Sports Teams are Rising

<table>
<thead>
<tr>
<th>Team</th>
<th>Price ($ Mil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington Redskins</td>
<td>$800</td>
</tr>
<tr>
<td>Boston Red Sox</td>
<td>700</td>
</tr>
<tr>
<td>New York Jets</td>
<td>635</td>
</tr>
<tr>
<td>Cleveland Browns</td>
<td>530</td>
</tr>
<tr>
<td>Los Angeles Dodgers</td>
<td>311</td>
</tr>
<tr>
<td>Toronto Raptors</td>
<td>288</td>
</tr>
<tr>
<td>Texas Rangers</td>
<td>250</td>
</tr>
<tr>
<td>New York Knicks</td>
<td>220</td>
</tr>
<tr>
<td>Minnesota Vikings</td>
<td>206</td>
</tr>
</tbody>
</table>

Sources: (c) 1998 Paul Kagan Associates, Inc., Carmel, CA, estimates. All rights reserved. Various news Reports
The Funding Gap

Limited Public Sources + Limited Private Sources = Funding Gap
Historical Private Funding Sources

- Personal Seat Licenses
- Suites & Club Seats
- Concessions
- Broadcasting
- Rent
- Naming Rights
- Advertising
- Sports Facilities
In Summary

Sports is Big Business

- Increasing Cost of the Business is Putting Pressure on Municipalities and Teams
- New Facilities Generate Substantial Revenues – How Are These Revenues Shared
- Public-Private Partnerships Have Become the Solution
Development Finance

- **Special Districts** – often used for Development Finance

- **Community Redevelopment Agencies** – Fund Infrastructure for Development, Hotels, Performing Arts Centers, Arenas, etc.
  - Often the “tax increment” or growth in property taxes expected to come from the new development are pledged
  - A secondary, more established revenue is usually needed to supplement the tax increment (e.g., non-ad valorem appropriation or sales tax or hotel tax)

- **Assessment & Community Development Districts** – Infrastructure (Roads, Water, Sewer, etc.)
  - Funded by bonds backed by assessments on land owner
  - Legislation allowing assessments to be parity with property taxes is key (may be Developers, builders, home or building owners).
The November 1998 Master Settlement Agreement ("MSA") is an agreement between settling tobacco companies and 46 states, as well as the District of Columbia and five U. S. territories.

The remaining 4 States (FLA, MN, MS, TX) settled in earlier settlements.

The settling companies have agreed to make payments to the states in perpetuity, based in part on domestic U. S. cigarette consumption.

The States are entitled to receive a specified fixed % of the initial and annual payments under the MSA, and a separate % of the strategic payments based upon their relative contribution to the litigation effort.
Payments Under the MSA

Payments, referred to collectively as TSRs (Tobacco Settlement Revenues), required by the MSA are calculated annually based on domestic cigarette shipments.

There are several types of payments under the MSA:
- Initial (or upfront) payments comprise five payments: four have already been received on 12/28/1998, 1/10/2000, and 1/10/2001, and 2002, with a final payment in 2003.
- Annual payments, made each April in perpetuity.
- Strategic payments beginning April 15, 2008 through 2017.

These revenue streams are subject to various adjustments – the most quantitatively important being volume and inflation (for Annual and Strategic payments only).
Financial Recovery for the States

The Original Manufacturers are severely liable for their “Relative Market Share” (a) of the $206 billion.

- The Original Manufacturers are:
  - Brown & Williamson
  - Lorillard Tobacco
  - Philip Morris
  - RJ Reynolds

- Other Participating Manufacturers include:
  - Liggett
  - Commonwealth
  - Santa Fe
  - As well as the exclusive distributors of Japan tobacco and Imperial Tobacco

- The $206 billion will be applied as follows:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Payments</td>
<td>$12,741</td>
</tr>
<tr>
<td>Annual Payments</td>
<td>183,176</td>
</tr>
<tr>
<td>Strategic Fund</td>
<td>8,610</td>
</tr>
<tr>
<td>National Foundation</td>
<td>250</td>
</tr>
<tr>
<td>Education Fund</td>
<td>1,450</td>
</tr>
<tr>
<td>Enforcement Fund</td>
<td>50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$206,277</strong></td>
</tr>
</tbody>
</table>

(a) The “relative market share” is determined each year as each company’s share of the total number of individual cigarettes shipped in or to the fifty United States, the District of Columbia and Puerto Rico during the calendar year immediately preceding the year in which the payment is due.
(b) The $1.45 billion assumes that the participating manufacturers will make up less than 99.05% of the total U.S. market share. Every year these companies exceed 99.05%, the participating manufacturers will have to pay an additional $300 million.
Settlement Amounts by State

- The Master Settlement Agreement ("MSA") provides payments to all the participating states and territories (the "Settling States")
- Florida, Minnesota, Mississippi and Texas (the "Original Settling States") settled separate individual state lawsuits

* These amounts are scheduled to be paid to the States over the next 25 years.
What are the Opportunities to Shift Tobacco Industry Risk?

Receive Payments Over Time
- Maximizes gross MSA payments available to the Commonwealth
- MSA payments can be utilized to fund smoking cessation, health care, education and/or other programs
- Ability to endow an Unrestricted Trust Fund
- MSA payments could be used to defease outstanding debt of the Commonwealth

Public Securitization
- Will enable the Commonwealth to diversify tobacco industry risk on the portion it elects to securitize
- Assurance that the Special Purpose Vehicle/Authority is “bankruptcy remote” will remove any liability to bondholders in the event a payment delay or default occurs should MSA payments be lower than projected
- Residuals may flow back to Commonwealth to the extent they are not utilized in the structuring/payment of the bonds

Private Securitization
- Eliminate risk on the portion it elects to sell to a third party in private sale
- Same financial and legal analysis as in public sale
- Evaluate value to Commonwealth compared to public sale
- Placement with a private third party would not require involvement of external entities such as rating agencies, etc.

Combination of Payments Over Time and Securitization
- Diversify a portion of tobacco industry risk
- Maximize dollars of the percentage received over time
- Ability to fund smaller Unrestricted Trust Fund
- Authority has the ability to select a combination of a public AND private sale while, at the same time, retaining a portion of the MSA payments received over time
Summary of the Opportunities to Shift This Risk

**MSA Trustee**

$\rightarrow$ **Commonwealth and/or Commonwealth Special Purpose Vehicle**

Receive and Keep Over Time 100%

Receive and Keep Over Time X %

**Optimal Strategy**

Maybe Some Combination of Receive Over Time, Public/Private Securitization

**Stop**

Securitize Y%

**Bonds (Public Sale)**

Tax-Exempt

**Third Party Sale (Private Sale)**

Combination Taxable/Tax-Exempt

**Sale Back to Tobacco Companies or Other Alternative**

Taxable

NOTE: x + y = 100%
Community Hospitals- Not-For-Profits, Hospital Systems, and University Affiliates finance capital projects, expansions, equipment, etc via issuance of long term debt

- Typically pledge their patient revenues, accounts receivable, investment income, and at times the mortgage on their facilities

- Considered much more a corporate credit, not a local monopoly
  - Most compete in their market with other Not-For-Profits and For Profits
    - Ocala- Munroe/HCA
    - Tampa- Bay Care/Tampa General/UCH/HCA/Moffitt….Others
SECURITY FOR THE SERIES 2002 BONDS

The Series 2002 Bonds are secured by and are payable solely from (i) payments or prepayments by the Members of the Obligated Group on the Series 2002 Obligation, (ii) payments made by the Borrower under the Loan Agreement in lieu of payments made pursuant to the Series 2002 Obligation, and (iii) certain amounts on deposit with the Bond Trustee under the Bond Indenture. Certain investment earnings on money held by the Bond Trustee may be transferred to a Rebate Fund established pursuant to the Bond Indenture. Amounts held in the Rebate Fund are not part of the "trust estate" pledged to secure the Series 2002 Bonds and will not be available to make payments thereon.

The Series 2002 Obligation will be issued in a principal amount equal to the aggregate principal amount of the Series 2002 Bonds. The Series 2002 Obligation will be delivered to the Bond Trustee and will evidence the bondholders to the protection of the covenants, restrictions and other obligations imposed upon the Obligated Group by the Master Indenture. The terms of the Series 2002 Obligation will require payments by the Obligated Group which, together with other moneys available therefor (and interest earned thereon), will be sufficient to provide for the timely payment of the principal of, premium, if any, and interest on the Series 2002 Bonds.

The Series 2002 Obligation is secured by a pledge of the Revenues of the Members of the Obligated Group and other moneys pledged under the Master Indenture on a parity with all other Obligations outstanding under the Master Indenture.

THE SERIES 2002 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM PAYMENTS RECEIVED BY THE AUTHORITY UNDER THE LOAN AGREEMENT INCLUDING PAYMENTS MADE BY THE OBLIGATED GROUP ON THE SERIES 2002 OBLIGATION ON A PARITY WITH ALL OTHER OBLIGATIONS OUTSTANDING UNDER THE MASTER INDENTURE AND DO NOT AND WILL NOT CONSTITUTE A DEBT OF THE CITY OF ST. PETERSBURG, FLORIDA, Pinellas County, Florida, or the State of Florida or any political subdivision, agency or instrumentality thereof, other than the limited obligation.

Escrow Agreement. Such Acquired Obligations will mature at such times and in such amounts so that sufficient moneys will be available from such maturing principal thereof and interest thereon to pay, when due, all principal of, and interest on the Refunded Bonds and to redeem the Refunded Bonds within 90 days of the issuance of the Series 2002 Bonds, at a Redemption Price of 102% of the principal amount thereof, plus accrued interest.

In connection with the deposit of the Acquired Obligations and uninvested cash with the Escrow Agent pursuant to the Escrow Agreement and as a result of such defeasance, Bond Counsel will render its opinion to the effect that, assuming the deposit and application of the Acquired Obligations in accordance with the provisions of the Escrow Agreement, the obligations of the Borrower and the Authority to the holders of the Refunded Bonds will be discharged and satisfied. Such opinion will be rendered in reliance upon certain certificates and the verification report of Caussey Dermen & Moore Inc. described herein under the heading "VERIFICATION OF MATHEMATICAL ACCURACY."

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2002 Bonds and other legally available moneys of the Borrower are expected to be applied as follows:

<table>
<thead>
<tr>
<th>Use of Funds</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Amount of Series 2002 Bonds</td>
<td>$34,995,000</td>
</tr>
<tr>
<td>Net Original Issue Premium</td>
<td>768,592</td>
</tr>
<tr>
<td>Bondor Contribution</td>
<td>539,964</td>
</tr>
<tr>
<td>Total Sources of Funds</td>
<td>$36,303,556</td>
</tr>
</tbody>
</table>

(1) To be applied to the refunding of the Refunded Bonds on or before February 10, 2003.
(2) To be applied to the retirement of the Refunded Loan.
(3) Represents legal fees, accountants' fees, underwriters' discount, title insurance premiums and other fees associated with the issuance of the Series 2002 Bonds.
Local Governments, Authorities, and Governmental Utilities finance water and sewer facilities on a stand-alone or combined basis

- Sarasota/Tampa/J.E.A./O.U.C.

Essential Service – May also be a monopoly

- High Rating, plus credit enhancement readily available
- Liberal Bond Covenants – Additional Bonds Test, Rate Covenants, Reserve Funds

Pledged Revenues consist of Rates and Charges, Developer Impact Fees, and Special Assessments among other sources

Tampa Bay Water is a unique wholesale water provider
$107,870,000
TAMPA BAY WATER
A Regional Water Supply Authority
Utility System Refunding Revenue Bonds
Series 2004

Principal Amounts, Maturities, Interest Rates, Yields and Initial CUSIP Numbers

<table>
<thead>
<tr>
<th>Maturity (October)</th>
<th>Principal</th>
<th>Interest Rate</th>
<th>Yield</th>
<th>Initial CUSIP Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$210,000</td>
<td>6.60%</td>
<td>1.13%</td>
<td>973510-QQ-00</td>
</tr>
<tr>
<td>2006</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-01</td>
</tr>
<tr>
<td>2007</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-02</td>
</tr>
<tr>
<td>2008</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-03</td>
</tr>
<tr>
<td>2009</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-04</td>
</tr>
<tr>
<td>2010</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-05</td>
</tr>
<tr>
<td>2011</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-06</td>
</tr>
<tr>
<td>2012</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-07</td>
</tr>
<tr>
<td>2013</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-08</td>
</tr>
<tr>
<td>2014</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-09</td>
</tr>
<tr>
<td>2015</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-10</td>
</tr>
<tr>
<td>2016</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-11</td>
</tr>
<tr>
<td>2017</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-12</td>
</tr>
<tr>
<td>2018</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-13</td>
</tr>
<tr>
<td>2019</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-14</td>
</tr>
<tr>
<td>2020</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-15</td>
</tr>
<tr>
<td>2021</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-16</td>
</tr>
<tr>
<td>2022</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-17</td>
</tr>
<tr>
<td>2023</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-18</td>
</tr>
<tr>
<td>2024</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-19</td>
</tr>
<tr>
<td>2025</td>
<td>$240,000</td>
<td>6.60%</td>
<td>1.30%</td>
<td>973510-QQ-20</td>
</tr>
</tbody>
</table>

This page contains necessary information for the reference only. It is not a summary of the text. The issuance of a preliminary or final official statement is anticipated on or about March 20, 2004. The preliminary official statement will be delivered to the extent necessary to comply with the Act. This coverage page contains necessary information for the reference only. It is not a summary of the text.
Tampa Bay Water – Series 2004
Security and Sources and Uses

SECURITY AND SOURCES OF PAYMENT

General

The 2004 Bonds are limited obligations of Tampa Bay Water payable solely from and secured by a lien upon and a pledge of the Pledged Funds, subject in each case to the application thereof for the purposes and on the conditions permitted by the Bond Resolution.

The obligations and liabilities of the Member Governments pursuant to the Master Water Supply Contract are an operating expense of each Member Government's water utility system and are to be paid from their operation and maintenance account except to the extent available monies have been otherwise budgeted by a Member Government and legally appropriated for such purpose. See "SUMMARY OF PRINCIPAL AGREEMENTS" - Item 2 and APPENDIX C - "Form of Master Water Supply Contract".

THE 2004 BONDS SHALL NOT BE OR CONSTITUTE GENERAL OBLIGATIONS OR ENDENTEDNESS OF TAMPA BAY WATER WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF FLORIDA, BUT SHALL BE PAYABLE SOLELY FROM AND SECURED BY A LIEN UPON AND A PLEDGE OF THE PLEDGED FUNDS IN THE MANNER AND TO THE EXTENT PROVIDED IN THE BOND RESOLUTION. NO 2004 BONDHOLDER SHALL EVER HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE AD VALOREM TAXING POWER OF TAMPA BAY WATER OR TAXATION IN ANY FORM ON ANY REAL OR PERSONAL PROPERTY TO PAY SUCH 2004 BONDS OR THE INCOME THEREON. Nor shall any 2004 Bondholder be entitled to payment of such principal and interest from any funds of Tampa Bay Water other than the Pledged Funds all in the manner and to the extent provided in the Bond Resolution.

Rate Covenant

Tampa Bay Water has covenanted in the Bond Resolution that it shall take all actions to collect Net Revenues, together with the Fund Balance, in each of its Fiscal Years, equal to at least 125% of the Annual Debt Service becoming due in each Fiscal Year, and such Net Revenues shall also be adequate at all times to pay in each Fiscal Year at least 100% of (1) the Annual Debt Service becoming due in each Fiscal Year, (2) any amounts required by the terms of the Bond Resolution to be deposited in the Reserve Account or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy, (3) any amounts to be deposited in the Replacement Fund in each Fiscal Year, and (4) any amounts to be paid to the Capital Improvement Fund in each Fiscal Year.

Reserve Account

The Bond Resolution requires the Reserve Account be funded in an amount equal to the Reserve Account Requirement for all Outstanding Bonds. The Reserve Account Requirement for the Bonds is defined in the Bond Resolution as an amount equal to the lesser of (1) Maximum Annual Debt Service for all Outstanding Bonds, (2) 125% of the average Annual Debt Service for all Outstanding Bonds, or (3) the maximum amount allowed to be funded from proceeds of tax exempt obligations and invested at an unrestricted yield pursuant to the Code; provided, however, Tampa Bay Water may establish by Supplemental Resolution a different Reserve Account Requirement for a subaccount of the Reserve Account which secures a particular Series of Bonds.

ESTIMATED SOURCES AND USES OF PROCEEDS

<table>
<thead>
<tr>
<th>SOURCES</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Principal Amount of 2004 Bonds</td>
<td>$107,870,000.00</td>
</tr>
<tr>
<td>Plus Original Issue Premium</td>
<td>$13,033,337.55</td>
</tr>
<tr>
<td>Other Legally Available Money(1)</td>
<td>$5,383,786.44</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$126,287,023.99</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>USES</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit to Escrow Fund</td>
<td>$125,114,310.11</td>
</tr>
<tr>
<td>Costs of Issue(2)</td>
<td>$1,172,724.88</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$126,287,023.99</strong></td>
</tr>
</tbody>
</table>

(1) Represents certain excess monies on deposit in the funds and accounts established with respect to the Refunded Bonds.

(2) Includes the fees and out-of-pocket expenses for Bond Counsel, Disclosure Counsel and Financial Advisor, Underwriter’s Discount, printing, rating, municipal bond insurance premium, verification report and other associated costs of issuance.

[Remainder of this page intentionally left blank.]
Examples of Debt Management and Financial Engineering

- Market Advice
  - Fixed & Floating
  - Bonds & Swaps
  - Retail & Institutional
- CPI Index Bonds
  - Issue CPI indexed rate bonds
  - Swap cash flows to attractive fixed rate
- Convertible Bonds
- Call-Option Valuation
  - Price short-calls
  - Evaluate option value for refundings
- Cash Defeasance
  - Use unrestricted cash to escrow bonds to maturity up to prior bond yield
  - Replace cash with new, lower yielding bonds
  - Sell escrow option

CPI Index Bonds

Borrower

Swap

Counterparty

The swap allows borrower to reduce financing costs and reduce the risk associated with fluctuations in inflation rates.

Variable Rate Bondholders

Floating Rate = (Base CPI - Current CPI) / Current CPI * (Total Days / Days in Period)

CPI Rate = Floating Rate + Fixed Rate

Hypothetical Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base/Reference CPI</td>
<td>176.5</td>
</tr>
<tr>
<td>Current CPI</td>
<td>173.5</td>
</tr>
<tr>
<td>Fixed Rate</td>
<td>1.25%</td>
</tr>
<tr>
<td>Days in Period</td>
<td>181</td>
</tr>
<tr>
<td>Total Days in Year</td>
<td>365</td>
</tr>
<tr>
<td>Floating Rate</td>
<td>0.03487</td>
</tr>
<tr>
<td>Fixed Rate</td>
<td>0.01250</td>
</tr>
<tr>
<td>CPI Rate</td>
<td>4.737%</td>
</tr>
<tr>
<td>Interest Paid</td>
<td>$23.49</td>
</tr>
</tbody>
</table>

Swap Counterparty

CPI

Fixed Rate
The Use of Tax-exempt Variable Rate Debt in the Hospital Sector

Variable rate debt issuance for hospitals has increased significantly over the past four years.

– Since 2001, approximately 50% of all hospital debt has been issued in variable rate mode.
– Variable rate issuance as a percentage of total issuance increased from 39% in 2001 to nearly 61% in 2004 year to date.

Fixed vs. Variable Rate Issuance
What is Variable Rate Financing?

- Interest rates fluctuate periodically rather than staying fixed to maturity.

- The Bond Market Association Index (“BMA Index”)(1) as of October 14th, 2004 was 1.71%, compared to the Bond Buyer Revenue Bond Index (“BBRBI”)(2) rate of 4.99%.

- Reasons for hospitals to issue variable-rate debt and enter the short-term interest rate markets include:
  - Interest rate savings under current markets and most historical market conditions
  - Debt restructuring opportunities to include pre/re-payment flexibility
  - Opportunity to engineer asset-to-liability management
  - Widen investor base for Borrower

- Efficient pricing of derivative products, such as interest rate swaps, can potentially achieve interest rate savings to hospitals that choose to swap to variable rates

- Variable rate debt allows hospitals to match assets with floating rate liabilities. Variable cash flow generated by short-term and variable-rate assets can help offset variable rate debt service costs, because markets tend to move in tandem

---
(1) The BMA Index is comprised of over 250 high grade tax-exempt weekly adjustable bonds
(2) The Revenue Bond Index consists of 25 various revenue bonds that mature in 30 years
Historical Interest Rates

- The BMA index is published weekly by the Bond Market Association and is the average of approximately 250 high grade weekly, tax-exempt bonds. The rate is a proxy for tax-exempt floating (weekly) interest rates. The BMA index was created in 1989; periods before 1989 are based on the J.J. Kenny index, a similar index of tax-exempt floaters.

- The BBRBI consists of 25 various revenue bonds that mature in 30 years.
The “Natural Hedge”

Volatile cash flows from financial activities

- Unnecessarily high interest expense, low investment income
- Risk of poor margins impacting service, ability to invest in future capacity / service
- Difficulty in budgeting and meeting goals

More stable and predictable cash flows

- Improved cash flows from financial activities
- Source of stability for the organization
- Ease of budgeting
- Competitive advantage
- Helps improve credit ratings

Ironically, investment and debt policies that appear conservative in isolation, are risky when considered from a global perspective.

Often, the counter-intuitive result is that additional variable rate risk actually reduces balance sheet risk.
“With short-term interest rates at historical lows, more hospitals are restructuring their debt portfolios and increasing their variable rate debt exposure either by issuing variable rate debt or by engaging in interest rate swaps.”
- Moody's, *Healthcare: 2003 Outlook and Medians*

“The use of variable-rate debt also continued as many providers issued auction-rate securities, while the use of bank-backed debt appears to have declined.”
- Fitch Ratings, *Nonprofit Hospitals and Health Care System Forecast, 2004*

“In addition, we have seen a greater use of floating rate financing vehicles which have resulted in even lower interest rates.”
- Moody's, *Healthcare: 2004 Outlook and Medians*
Florida Teaching Hospital Comparisons

**SHANDS HealthCare**

Financial Information as of: 06/30/03
Total Outstanding Debt: $448.237 million
Net Patient Revenue: $1.208 billion
Ratings: A2 / NR / NR (Moody’s / S&P / Fitch)
Synthetic Variable: $81.2 million (18%)
Synthetic Fixed: None

**Jackson Health System**

Financial Information as of: 09/30/03
Total Outstanding Debt: $166.620 million
Net Patient Revenue: $795.780 million
Ratings: A3 / NR / NR
Synthetic Variable: None
Synthetic Fixed: None

**Mount Sinai Medical Center**

Financial Information as of: 12/31/03
Total Outstanding Debt: $274.452 million
Net Patient Revenue: $410.385 million
Ratings: Ba2 / BB / BB
Synthetic Variable: None
Synthetic Fixed: None

**Orlando Regional Healthcare**

Financial Information as of: 09/30/03
Total Pro-Forma Debt: $175.709 million
Net Patient Revenue: $202.442 million
Ratings: Aa3 / NR / AA
Synthetic Variable: None
Synthetic Fixed: $40 million (pro-forma)
Other Selected Florida Health Care Examples

**Sarasota Memorial Health Care System**
- Financial Information as of: 10/01/04
- Total Outstanding Debt: $401.240 million
- Net Patient Revenue: $387.004 million
- Ratings: A1 / NR / A
- Synthetic Variable: $177,815 million (44%)
- Synthetic Fixed: $80 million (20%)

**BayCare Health Systems**
- Financial Information as of: 12/31/03
- Total Outstanding Debt: $737.993 million
- Net Patient Revenue: $1.406 billion
- Ratings: A1 / NR / AA-
- Synthetic Variable: $240 million
- Synthetic Fixed: None

**Miami Children's Hospital**
- Financial Information as of: 10/01/04
- Total Outstanding Debt: $141,340 million
- Net Patient Revenue: $255,925 million
- Ratings: NR / A- / A-
- Synthetic Variable: $75 million (53%)
- Synthetic Fixed: None

**University Community Health**
- Financial Information as of: 09/30/03
- Total Outstanding Debt: $159,215 million
- Net Patient Revenue: $321.764 million
- Ratings: Baa2 / BBB / NR
- Synthetic Variable: None
- Synthetic Fixed: None

**Lakeland Regional Medical Center**
- Financial Information as of: 09/30/03
- Total Pro-Forma Debt: $218.5 million
- Net Patient Revenue: $384.0 million
- Ratings: A1 / NR / NR
- Synthetic Variable: $60 million (27%)
- Synthetic Fixed: None

---

(1) Long-term bond issues only
(2) Annualized based on nine months ending June 30, 2004 unaudited financial statements.
(3) In 2002, BayCare entered into an interest rate swap which implemented a 3-year rate for its synthetic variable swap. After the termination of this swap in March 2005, $148.603 million will convert back to a shorter-reset synthetic variable rate.
(4) As of December 31, 2003 audited.
### Variable Rate Financing Alternatives

**Variable Rate Demand Obligations (“VRDOs”)**

- Long term maturity, rate set periodically by remarketing agent, investors have liquidity option to tender bonds for par at any time.

**Auction Rate Securities**

- Long term maturity, rate set every 35 days by dutch auction, investor ability to tender bonds determined by auction.

**Synthetic Variable Rate**

- Borrower creates a ‘synthetic’ variable rate on a fixed rate bond by executing a fixed-to-floating interest rate swap.

### Interest Modes

- **Daily**
  - Lower Rate
  - Lower Risk

- **Weekly**
  - Greater Savings
  - Lower Rate

- **CP**
  - Less Savings
  - Larger Market

- **Fixed Rate**
  - Less Savings
  - Better Cash Market

### Reset Modes

- **Weekly**
  - Greater Savings
  - Lower Rate

- **35-Day**
  - Less Savings
  - Larger Market

### Underlying Indexes

- **BMA**
  - Greater Savings
  - Less Volatility

- **LIBOR**
  - Less Savings
  - Better Cash Market

---

The choice of variable rate structure depends on Borrower’s balance sheet and credit ratings and/or the availability and cost of bank liquidity. While VRDOs may require liquidity, ARS and Synthetic Variable Rate do not. However, the interest cost may be slightly higher.

---

The choice of variable rate structure depends on Borrower’s balance sheet and credit ratings and/or the availability and cost of bank liquidity. While VRDOs may require liquidity, ARS and Synthetic Variable Rate do not. However, the interest cost may be slightly higher.
Comparison of Variable Rate Alternatives - Example

<table>
<thead>
<tr>
<th>VRDOs with Letter of Credit</th>
<th>Synthetic Variable Rate&lt;sup&gt;1&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Floating Rate Bond</td>
<td>BMA</td>
</tr>
<tr>
<td>Trading Differential</td>
<td>--</td>
</tr>
<tr>
<td>Fixed Rate Bond (18-year average life)</td>
<td>--</td>
</tr>
<tr>
<td>FXR Swap (18-yr avg life):</td>
<td>n/a</td>
</tr>
<tr>
<td>-- Floating Index</td>
<td>BMA</td>
</tr>
<tr>
<td>-- Fixed Rate</td>
<td>BMA</td>
</tr>
<tr>
<td>Ongoing Fees:</td>
<td></td>
</tr>
<tr>
<td>-- Broker-Dealer/Auction Agent</td>
<td>--</td>
</tr>
<tr>
<td>-- Letter of Credit&lt;sup&gt;3&lt;/sup&gt;</td>
<td>0.80% to 1.25%</td>
</tr>
<tr>
<td>-- Remarketing Agent</td>
<td>0.10%</td>
</tr>
<tr>
<td>Insurance&lt;sup&gt;4&lt;/sup&gt;</td>
<td>--</td>
</tr>
<tr>
<td>Total Cost of Funds</td>
<td>BMA + 90 to 135 bps</td>
</tr>
</tbody>
</table>

(1) Assumes non-callable 18-year borrowing cost for fixed rate (insured and uninsured) bonds at 4.53% and 5.37%, respectively; assumes fixed rate bonds swapped to variable via 18-year average life fixed-to-floating swap where the Borrower receives 3.82% and pays BMA. Rates as of 09/17/04; subject to credit approval, documentation and market conditions.

(2) Current estimated spread between tax-exempt ARS borrowing cost to the BMA Index. Historically, over the past five-years, insured healthcare 35-day ARS have averaged 15bps over the BMA Index.

(3) Indication only. Subject to credit review and final executed legal documents.

(4) Approximate annualized cost assuming 350 bps upfront premium amortized over a range of 10 to 30 years. Actual results will depend on future trading levels and may vary significantly. Variable bond fees are estimates and subject to change over life of the transaction which may impact cost of funds. For illustration purposes only; actual results will depend on future market conditions. Rates as of close, 09/17/04.
## Comparison of Variable Rate Alternatives

### (cont’d)

<table>
<thead>
<tr>
<th>Credit Enhancement</th>
<th>VRDOs with Letter of Credit</th>
<th>Insured Auction Rate Securities</th>
<th>Synthetic Variable Rate&lt;sup&gt;1&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment Period</td>
<td>Letter of Credit</td>
<td>Insured</td>
<td>Uninsured</td>
</tr>
<tr>
<td>Renewal Risk</td>
<td>3 to 5 years</td>
<td>Insurance</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>1) Renew Letter if available</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>2) Refinance with a variable rate alternative if available</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>3) Refinance with current market fixed rates</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>4) Pay-off</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Options at Renewal</td>
<td>1) Days Cash on Hand: 75 - 85</td>
<td>1) Days Cash on Hand: 75 - 85</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>2) Debt to Capitalization: 65%</td>
<td>2) Debt to Capitalization: 65%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>3) Additional Debt Test</td>
<td>3) Additional Debt Test</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>4) Limitations on Mergers &amp; Acquisitions</td>
<td>4) Limitations on Mergers &amp; Acquisitions</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<sup>1</sup> Variables used in the synthetic variable rate calculation.
Derivatives – Another Debt Management Tool

- Tax-exempt issuers use a wide range of financial derivative products to more efficiently manage their debt and investments.

- A derivative is a financial instrument created from or whose value depends on (is derived from) the value of one or more separate assets or indexes of asset values.
  - For example, the value of an interest rate swap is derived from the values of bonds.

Common goals for using derivatives in the public sector include:
- Lowering interest expense
- Hedging interest rate risk
- Matching interest rate sensitive assets and liabilities
- Diversifying financial risks

Derivative products are unique in the history of financial innovation:
- The first swap was executed between the World Bank and IBM twenty years ago.
- There are now more than one-hundred and forty trillion dollars of such products outstanding.

Source: International Swaps and Derivatives Association, Inc.
Interest Rate Swaps

- Agreement is between two parties to exchange payments.
- Each party agrees to make a fixed/floating payment in exchange for receiving a floating/fixed payment over a predetermined period.
- Payments are based on a “notional” amount.
- No principal is exchanged.

Notional Amount $25,000,000

Party A

Fixed

Floating

Party B
Why Would a Borrower Use a Swap?

- Change the overall fixed rate/variable rate composition of debt without refunding or issuing new debt
- To attain synthetic fixed or variable rates that may result in a more attractive cost of funds than traditional fixed or variable rate bonds
- To eliminate, manage or create exposure to certain risks (i.e. variable rate risk, tax risk)
- Create variable rate exposure for issuers who otherwise would not have access to the market due to enhancement constraint
- To lock in attractive fixed rates today for financings that are scheduled to occur in the future
- Minimize overall market risks by improving matching of assets and liabilities
- To extract value from existing variable rate debt
- To increase or hedge investment returns
For the last fifteen years, issuers have made increasing use of plain-vanilla interest rate swaps, forward delivery bonds and the occasional interest rate cap.

<table>
<thead>
<tr>
<th>Financial Product</th>
<th>Typical Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-to-Floating Swaps and Options</td>
<td>Increase variable rate exposure; improve match between assets and liabilities, generate interest cost savings, hedge short-term asset returns.</td>
</tr>
<tr>
<td>Basis Swaps</td>
<td>Generate swap income and partially hedge existing variable rate risk</td>
</tr>
<tr>
<td>Floating-to-Fixed Swaps and Options</td>
<td>Hedge future refunding of non-advance refundable, high-coupon debt; lock-in financing cost on interest rate sensitive fixed rate issuance in process.</td>
</tr>
<tr>
<td>Caps</td>
<td>Hedge interest cost on variable rate debt.</td>
</tr>
<tr>
<td>Collars</td>
<td>Hedge interest cost on variable rate debt, increase and hedge short-term asset returns; reduce budgetary uncertainty.</td>
</tr>
<tr>
<td>Rate Locks/Caps</td>
<td>Hedging financing cost on interest rate sensitive, fixed rate issuance in process.</td>
</tr>
<tr>
<td>Debt Service Caps</td>
<td>Cap financing cost on interest rate sensitive fixed rate issuance in process</td>
</tr>
<tr>
<td>Forward Delivery Bonds</td>
<td>Refund non-advance refundable high coupon debt; lock-in financing cost on future fixed rate issuance</td>
</tr>
<tr>
<td>Conversion Options</td>
<td>Lower interest cost on outstanding variable rate bonds by selling an option</td>
</tr>
<tr>
<td>Structured notes</td>
<td>Fixed income instrument with tailored risk/reward characteristics</td>
</tr>
<tr>
<td>Total return swaps</td>
<td>Establish synthetic position in an investment</td>
</tr>
</tbody>
</table>
The Borrower receives variable payments from the Swap Provider and pays a fixed rate of interest to the Provider.

Also referred to as “Fixed Payor Swap”

Basic potential applications include:

- A lower cost alternative to a fixed rate borrowing
- Hedge existing variable rate debt or hedge future bond issuances
- Lock-in refinancing rates for debt that cannot be advance refunded

Swaps Can Be Used to Create a **Synthetic** Fixed Rate Liability
Floating-to-Fixed Rate Swaps Can Lower the Cost of Fixed Rate Borrowings

Step 1: Sell variable rate bonds

Step 2: Enter into an interest rate swap to pay fixed and receive variable

<table>
<thead>
<tr>
<th>Calculation of All-In Synthetic Fixed Rate</th>
<th>( ) = Receipt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower pays variable rate debt service:</td>
<td>BMA</td>
</tr>
<tr>
<td>Borrower pays Liquidity and Remarketing Fees (Also Credit Enhancement):</td>
<td>0.25%</td>
</tr>
<tr>
<td>Borrower receives variable rate swap payment from Swap Provider:</td>
<td>(BMA)</td>
</tr>
<tr>
<td>Borrower makes fixed rate swap payment to Swap Provider:</td>
<td>5.45%</td>
</tr>
<tr>
<td>Borrower’s net synthetic fixed rate payment:</td>
<td>5.70%</td>
</tr>
</tbody>
</table>
Swap Providers Act as Intermediaries Between End-Users

Borrower’s objective: create low cost floating rate financing

Swap Provider

Variable Rate Bonds

B's objective: create low cost fixed rate financing

Swap Provider's gross spread is the difference between fixed rates paid ("Bid") and received ("Offered")
Fixed Swap Rates vs. AAA Municipal Bond Rates

Comparison of Current Interest Rates vs. Swap Rates

Note: Assumes re-marketing and liquidity fees over life of the issue at 10 and 25 basis points, respectively.

Note: Assumes Swap Provider takes tax risk, Issuer does not take tax risk.
Structural Comparison

- The Swap Provider Generally Bears General Market Tax Law Risk
- By Assuming This Risk, Borrowers Can Lower Their Fixed Swap Rates

Yield (%)

![Graph showing yield (%) vs. maturity (years) for Insured Muni Rates and Standard BMA Swap]
Fixed Rate Debt Vs. Swaps Determination Flowchart

Objective: Answer the question of can the Issuer realize a borrowing cost close to the average after-tax yield of a taxable loan of similar duration

by

Determining if municipal cash market ("MCM") is pricing bonds efficiently

If yes

Issue Fixed Rate Bonds

If no

Compare borrowing costs from MCM to MSM (yields maturity by maturity)

Determine borrowing cost available from Muni swap market ("MSM")

Select Structure Providing Lowest Cost of borrowing

Fixed Rate Bond Structure

Municipal Swap Structure (1)

Combination of Fixed Rate Bonds and Muni Swap Structure in select maturities

(1) Muni Swap structure involves the issuance of variable rate bonds combined with a swap to a fixed rate
Swap Market Overview

- For Borrowers That Want a Fixed Rate Liability:
  - When the Spreads Are Wide, Use Floating-to-Fixed Rate Swaps
  - When the Spreads Are Narrow, Use Traditional Fixed Rate Bonds

30 Yr. National Insured minus 30 Yr. Swaps

(Yield Spread Bps)
Interest rate swaps provide a mechanism to create “synthetic” variable rate exposure without issuing debt.

The BMA index is published weekly by the Bond Market Association and is the average of approximately 250 high grade weekly, tax-exempt bonds. The rate is a proxy for tax-exempt floating (weekly) interest rates.

We demonstrated a Decision Matrix previously

- Borrower issues fixed rate bonds
- Borrower enters into a fixed-to-floating interest rate swap
  - The Swap Provider pays Borrower a fixed rate
  - In return, Borrower pays a floating rate
- Swap based on principal or “notional” amount
- No exchange of principal
- Floating rate based upon objective BMA index
- Fixed rate determined by swap, bond markets

Calculating the Synthetic Variable Rate

\[ \text{Synthetic Floating Rate} = \text{BMA} + 1.29\% \]

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pays Fixed Bond Rate</td>
<td>5.05% (^1)</td>
</tr>
<tr>
<td>Receives Fixed Swap Rate</td>
<td>-3.76% (^2)</td>
</tr>
<tr>
<td>Pays Floating Index (BMA)</td>
<td>BMA</td>
</tr>
</tbody>
</table>

Rates as of 10/14/04

\(^1\) Uninsured, non-callable 18-year average life borrowing cost
\(^2\) Current rate for a 18-year BMA fixed-to-floating swap
For illustration purposes only; actual results will depend on future market conditions.
Main Risks of Swap Transactions

There are certain risks that are associated with transactions in the swap market. Among these, the primary risks include but are not limited to:

**Interest Rate Risk**

- Short term rates rise, resulting in an increased cost of variable rate funds

**Tax Exposure**

- Lower income tax rates would reduce the tax advantage of tax-exempt securities over taxable securities, resulting in higher tax-exempt rates relative to taxable rates, and increased funding cost

**Basis Risk**

- The risk that a variable rate received from a swap counterparty will vary from the rate that Borrower expected to receive

**Credit Risk**

- The possibility that a swap dealer could become financially unable to meet its swap obligations

**Termination Risk**

- Termination risk is similar to credit risk except it relates to other potential causes of early termination of the swap, including Borrower’s downgrade or nonpayment.
Conclusions

The Municipal Cash Market’s specific characteristics often can result in little value being placed upon tax-exemption for the “average” investor. This relatively minimal value can result from supply/demand considerations, as well as state/Issuer specific circumstances.

The Municipal Swap Market has the ability to generate a lower cost of borrowing for Issuer’s resulting form the fact that swap yields are determined via the LIBOR swap and Ratio markets rather than the Municipal Cash Market. The cost of borrowing can be lower in the swap market primarily because:

- Swap market participants often have a divergent view of the long-run value of tax-exemption compared to cash market participants, resulting in a generally higher view, especially in longer maturities;

- Swap market can often produce lower yields for higher cost borrowers because of a more constant credit pricing environment stemming from the fact the LIBOR swap market is part of the yield determination process

- Hedgers and speculators in the ratio market tend to keep the market valuation of the future value of tax-exemption more in line with what current and projected tax rates would imply

Shorter maturities are often best funded with fixed rate bonds due to the lower ratio to Treasuries available in the fixed rate Municipal Cash Market.

Issuers may apply the methodology employed herein to determine if a portion of their bonds should be fixed rate and a portion as variable/auction rate combined with a swap to fixed to optimize their borrowing costs.