

MEMORANDUM

August 13, 2015

To: Mayor Brian M. Barefoot

From: Terry Deason 

Cc: Vice Mayor Gerard A. Weick
Councilman Richard M. Haverland
Councilman Michael B. Ochsner
Councilman Thomas F. Slater
Town Manager, Robert H. Stabe Jr.

Re: Analysis of Florida Power & Light's Written Offer Dated August 12, 2015

I would like to provide you my initial analysis following my review of FPL's letter to the City of Vero Beach dated August 12, 2015, wherein FPL offered to purchase the Indian River Shores electrical system for \$13,000,000 cash.

At the outset, I note that FPL's cash offer of \$13,000,000 represents a per customer price that significantly exceeds that which was determined to be reasonable for the purchase and sale of the South Daytona and the Winter Park electrical systems. While each system sale has unique factors and must be evaluated as such, the offer from FPL is certainly of the magnitude which would merit careful consideration and evaluation.

The offer appears to be a bona fide one which would be beneficial to all stakeholders, including the City of Vero Beach, its customers, and the Town of Indian River Shores. It also should be noted that the purchase price paid by FPL would have to be justified by FPL to the Florida Public Service Commission ("PSC"). The PSC would ultimately determine whether the acquisition is in the public interest for all stakeholders, including FPL's existing customers. I make no judgment on that question, only to point out that it is an obligation of FPL to structure an offer which it believes would pass muster with the PSC.

Several months ago, as part of the mediation process in which we were earlier engaged, I performed some sensitivity analyses of the potential benefits to the City of Vero Beach from the sale of the Indian River Shores system. At that time, we did not have the benefit of a bona fide offer from FPL. Now that we do and at your request, I have updated those analyses to include FPL's \$13,000,000 cash offer. The resulting tables are attached for your review.

Let me reiterate, as was the case when these analyses were first presented, it is not my intent nor that of the Town of Indian River Shores to presuppose that a specified use of the sale proceeds would be more appropriate or beneficial than another. How the sale proceeds ultimately

are used will be a decision for Vero Beach's elected officials. However, as a means to put in perspective the magnitude of these benefits, I have taken two approaches:

- The first approach shows the number of years that the sale proceeds of \$13,000,000 could be used to replace the lost contribution from the Indian River Shores customers¹ to Vero Beach's general fund. My analysis shows, depending on the interest rate assumed, the lost contribution could be replaced in perpetuity. At the City's current cost of debt of 4.11%, sale proceeds of \$13,000,000 would replace the lost contribution for 72.9 years.
- The second approach looks at the potential benefits of using sale proceeds of \$13,000,000 to, in effect, create a sinking fund for the retirement of the City's 2003A Electric Bonds. Doing so could have the benefit of reducing debt payments by almost \$2.4 million per year with a cumulative savings over the remaining life of the bonds in excess of \$14.3 million.

Under either approach, sale proceeds of \$13,000,000 could be employed to stabilize electric rates for the benefit of all of the City's customers. Undoubtedly, there would be other beneficial uses of the sale proceeds. Based on their better understanding of the needs of the City of Vero Beach, the City Manager and the City Council could make those judgments.

TD
Attachments

¹ For purposes of my analysis, I have accepted the City's quantification of this amount of \$542,000 annually. I made no independent verification of this amount.

Town of Indian River Shores Buyout

Transfer Coverage Range Analysis

The following is a calculation for the number of years that the decrease in the transfer to the General Fund would be covered if FPL were to buyout the City of Vero Beach.

Decreased Transfer \$542,000 (According to City of Vero Beach)

Buyout	No Return	3.0%	4.11% ¹	5.0%	6.0%
\$ 6,000,000 ²	11.1	13.2	14.3	15.4	16.9
\$ 9,400,000 ³	17.3	23.8	28.7	35.8	68.7
\$13,000,000	24.0	40.6	72.9	perpetuity	perpetuity

¹ Rate applicable to the City of Vero Beach Electric Refunding Revenue Bonds, Series 2003A.

² Approximate buyout at the per customer rate determined for South Daytona.

³ Approximate buyout at the per customer rate determined for Winter Park.

Town of Indian River Shores Buyout

The following is a calculation of the theoretical amount of savings in debt service payments that could be achieved on the Series 2003A Electric Refunding Revenue Bonds.

Buyout	Annual Savings	Total Savings
\$ 6,000,000 ¹	\$1,103,327	\$ 6,619,961
\$ 9,400,000 ²	\$1,728,545	\$10,371,270
\$13,000,000	\$2,390,541	\$14,343,246

¹ Approximate buyout at the per customer rate determined for South Daytona.

² Approximate buyout at the per customer rate determined for Winter Park.