

# The Financing of Cone Ranch

-A History and Analysis from a Bond Perspective

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# Overview

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- Cone Ranch is an asset of the County's Utility System
- Any disposition of Cone Ranch must be for Fair Market Value in an *arms-length* transaction.
- The County has an obligation to its bondholders to observe the covenants of its bond documents

## Background

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- In 1988 the County issued bonds to finance the acquisition of Cone Ranch.
- The 1988 Bonds were secured by a covenant to appropriate from the County's Non-Ad Valorem Revenues.

# Background

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- In 1991, the 1988 Bonds were refinanced with Utility Bonds and Cone Ranch Parcel became part of the County's Utility System.
- In 2001, the County refinanced the 1991 Bonds with a Series of Utility Refunding Bonds of which approximately \$96 Million remain outstanding.

# Background

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- The 2001 Bonds were issued pursuant to the provisions of County Resolution Number R01-068, which was amended and restated by County Resolution R03-112.

# The Bond Resolution

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- The Bond Resolution imposes certain requirements relative to the disposition of property of the Utility System.

# The Bond Resolution

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- 1.** In the case of Utility property with a fair market value of more than \$500,000, such property may not be sold unless:
  - a)** the Utilities Director finds such property is no longer necessary, useful or profitable in the operations of the System;
  - b)** a Qualified Independent Consultant finds it is in the best interest of the County that the property be sold; and
  - c)** the Board of County Commissioners concurs by resolution and authorizes the sale.

# Qualified Independent Consultant

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- In the case of a disposition of Cone Ranch, a Qualified Independent Consultant would likely be a real estate appraiser that consults with an engineer to assess the fair market value of Cone Ranch to the Utility.

# Fair Market Value

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- Although the Bond Resolution does not provide a definition of *fair market value*, Florida case law is helpful in this regard:

“Fair Market Value is the amount of money which a purchaser is willing (but not obligated to buy property) to pay to an owner that is willing but not obligated to sell, taking into consideration all uses to which the property is adapted and might in reason be applied.”

# Fair Market Value/Arms-Length Sale

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- It is the County's policy to determine fair market value of land based on the highest and best use of the parcel.
- For federal income tax purposes, the sale of tax-exempt financed property must be pursuant to an *arm's-length* transaction where fair market value is paid.

# Federal Income Tax Implications

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- Since Cone Ranch was financed with Tax-Exempt Bonds, the sale of Cone Ranch gives rise to certain federal tax considerations.

# Federal Income Tax Implications

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- The receipt of sale proceeds is treated as a return of tax-exempt bond proceeds, resulting in certain restrictions on their investment and use.

# Federal Income Tax Considerations

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- Under current Treasury Regulations, the County may protect the tax-exempt status of its Bonds by taking certain remedial actions, but the County is first required to receive fair market value in an arms-length transaction.

## Bond Resolution Restrictions on Application of Sale Proceeds

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- If sale proceeds are less than 10% of the fair market value of System Assets, the County is required to deposit such proceeds in the Renewal and Replacement Account.
- Moneys in the Renewal and Replacement Fund are generally applied to the replacement of capital assets, extraordinary maintenance or repairs or bond redemption.
- If sale proceeds equal or exceed 10% of the fair market value of System Assets, the County is required to use proceeds to redeem bonds.

# Summary

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- Under the Bond Resolution and Federal law, any disposition of Cone Ranch must be for Fair Market Value in an *arms-length* transaction.
- The County has an obligation to its bondholders to observe the covenants of its bond documents
- Sale proceeds are required to be deposited in the Utility's Renewal and Replacement Account