

Not sure if its ok?

5-21-89

MEMORANDUM

May 17, 1989

TO: BOARD OF OFFICERS

FROM: BOB TALL

RE: PROPERTY FINANCING

Before getting too deeply into this, please consider: We have an option to buy the Turnbull Bay property for \$550,000. Wiley has gotten an offer on it for \$700,000. If we want out, we can just say so, let Wiley sell it without ever exercising our option to buy, and negotiate a split of the profits with him.

If we don't want the property, we should buy it anyway for \$550,000, pay Wiley off, and sell it ourselves for the \$700,000 (or however much more the buyer will pay), and not have to split the profits with Wiley.

What this paper proposes is that we seek Executive Council approval, borrow the money, pay Wiley off, and move ahead with the construction of our office building.

We can do it, and we can afford it.\* After construction of the office building, the property will be much more valuable and we'll have a lot of additional options to choose from in the future, including selling off part of the property if we need money.

I had discussions last week with SunBank officials -- Loan Office John Browning and SunBank Community Bank President Larry McDermott -- which I interpret as a near-commitment to move ahead now on full financing for the purchase of the property and the completion of Phase One at Turnbull Bay.

Phase One, as approved by the Volusia County Council, consists of all utilities we will need through the completion of the entire project; all road construction; finished architectural plans for the APCO Office Building; and construction and furnishing of the building. It does not include construction of a building for the APCO Institute.

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\*Jack has a detailed breakdown on this, but since the beginning of 1989 we have already spent \$30,000 on the property; we will spend about \$26,400 on construction of steps, building, ramps, sewage, waterlines, telephone cabling, grounding, and moving costs this week and in the next couple of weeks; and we will spend \$24,000 to get CET moved. From June through December, our lease payments will be about \$6,300 per month (for Turnbull Bay, the temporary offices, and the continued payment for the premises above the Liquor Locker if we can't work something out on that). This contrasts with about \$2,600 per month rent we've been paying. After December, when the Liquor Locker lease expires, our monthly payments will be \$4,656.

The total amount of money we are talking about is \$1,250,000. We would come up with our \$250,000 "down" and SunBank would provide the other \$1,000,000. They asked for no five-year business plan (although I feel we should continue work on this as we muster our expertise to do it).

It is significant that I did not ask for last week's meeting; they asked for it. In fact, I had not asked for SunBank's first expression of interest, before the January Board meetings, when John Browning had come to us. He has been following our progress since that time in moving ahead and, unless I'm wrong, SunBank is ready now to offer us a commitment.

Two options were discussed:

1) SunBank would issue a letter of credit for \$1,000,000 in our favor to a Bond house -- DLS -- which would put together a Bond issue and sell it to the big institutional investors. Prudential Bache was one name discussed. I talked to Charlie Sands of DLS, and he feels we can ride in on our 501(c)(3) IRS standing and with SunBank's letter of credit, can offer a AA credit rating and get the Bonding issue at "2 or 3 points below the prime rate." Charlie is checking this out. A letter from his is attached.

2) If that fails, SunBank would give us a straight commercial loan for \$1,000,000, at an unspecified as yet rate of interest, but higher than the interest in Option One.

Following the meeting, SunBank wrote us a letter, which is also attached, listing other options and possibilities.

This much is sure: SunBank likes us; likes our performance for the past five years; and wants to lend us the money.

SunBank knows that our Executive Council directive is that we have \$250,000 in hand to dedicate to the project (although they apparently would be willing to discuss a smaller amount "down"), and they have my estimate that we'll have the \$250,000 in hand by October 1, 1989.

If the members of the Board and the Executive Council want to do this, we can do it. All it will take is the go ahead approval.

I asked Jack to run his mortgage amortization tables on \$1,000,000. Representative samples follow:

- o At 10% for a 15-year mortgage, it would cost \$10,746 a month.
- o At 9% for 15 years, it would cost \$10,142 per month.
- o At 9% for 20 years, it would cost \$8,997 a month.

- o At 9% for 25 years, it would cost \$8,391 per month.
- o At 9% for 30 years, it would cost \$8,046 per month.
- o At 10% for 30 years, it would cost \$8,775 per month.
- o At 12% for 30 years, it would cost \$10,296 per month.
- o At 15% for 30 years, it would cost \$12,644 per month.

Under our lease with Wiley, the property, house and two temporary buildings will be costing us \$4,656 per month. after we get moved in and settled. If the tax-exempt AA bond approach were to work out, I estimate we could be in our new office building, with Wiley's \$550,000 paid off, for about \$7,500 per month in mortgage payments. If the tax-exempt bond were to not work out, I estimate that figure to be about \$9,000 per month. That's without raising further funds above the \$250,000 and making the minimum down payments.

We have been putting \$4,167 into our Building Fund each month in this current fiscal year, plus paying about \$2,600 a month in rent. This totals \$6,767. So we know we can do it.

We can afford the mortgage payments under either SunBank option we discussed, or under one of the other options set forth in the SunBank letter of May 12. As noted above, we have been paying more than \$6,700 per month a month into Building Fund accumulation and rent. Our cash flow, which so far in 1989 is a net of more than \$40,000 per month (revenue over expenses) can obviously stand it, particularly with frequency coordination in such good health and promising to get even better in June when the NPSPAC coordination fees start come in.

Where do we stand on the \$250,000 up front, to come from the total of donated and budgeted building funds plus money we have in hand that is not obligated for other purposes?

At the end of April 1989 our budgeted building fund has accumulated to \$112,000. Our building fund donations amounted to \$7,571, leaving us a balance of \$130,472 to reach \$250,000.

Between now and October 1, we be putting another \$16,666 in the budgeted building fund. With no other considerations, that would reduce the shortfall as of that date to \$113,806.

Alternative ways to get that money are:

- o Further sizeable donations from the Chapters. CPRA has voted to donate; Arkansas has indicated it will be donating; Texas has discussed the matter.

o Interest-free loans from the Chapters, or individuals. (Wiley, the developer of the property, has indicated that he will start this off with "\$20,000 to \$30,000".)

o We will have \$50,000 in employee pension funds set aside in a separate account as of October 1. This has to be invested in something, and APCO is a good investment. We could borrow this money from the pension fund at 10% interest, and pay it off in two years with monthly payments of \$2,500, which we could easily afford.)

o Even without considering the frequency coordination income from the new Public Safety 800 MHz channels, frequency coordination would have completed its loss-payback to APCO of \$171,000 by October 1. With revenues to begin from the National Plan channels in mid-June, this payback by October 1 is assured. We could divert that money to the Building Fund. This alone would be enough.

o We could declare the profits from the 1989 Annual Conference to the Building Fund, which alone would be more than enough.

Assuming that we want to buy the property and proceed (the Executive Council approved such a step in Little Rock), it is to our financial advantage to do so as early as we can.

Please consider: We can have our 10,000 square foot building on the property and operating in approximately 18 months. When that is completed, the value of the property really starts going up.

The City of New Smyrna Beach wants to annex the property, and would do so now if we petitioned them. If we go along with that, we would not have to follow any of the building conditions or plans specified in our County rezoning authorization.

For instance, after city annexation we could then sell the existing house and point of land for (a guess) \$300,000 or more this year, and have enough money immediately to build whatever we want to build on the remainder of the property.

We have many attractive options before us. All we have to do is move on them.

In the worst possible case, i.e., we had to abandon the project for the lack of funds, we could sell the property and have more money than we started with.

nk

SunBank of Volusia County  
P.O. Box 2120  
Daytona Beach, Florida 32015  
904 255-4400

MAY 10 1989

May 12, 1989

Mr. Robert Tall  
Executive Director  
Associated Public-Safety  
Communications Officers, Inc.  
P.O. Box 669  
New Smyrna Beach, FL 32069

RE: Proposed \$1,000,000 Mortgage Loan

Dear Bob:

Thank you for your time Thursday morning and your kindness in familiarizing Larry McDermott and myself with the scope of your organization. I thought it appropriate for you to meet Larry, as the new Community Bank President he is the person to handle you and your company's day-to-day banking needs. We were both impressed with your project and especially the beauty of your chosen location. We both feel confident that Sun Bank will be able to put together a proposal and commit to your financial needs.

Under normal projects of this type, you could expect to receive a commitment under the following terms and conditions.

1. A mortgage loan not to exceed 80% of value supported by an appraisal performed by an appraiser's certified MAI standards.
2. A construction loan with interest only, payable for a period tailored to meet your needs.
3. A permanent mortgage amortized over a 25 to 30 year period, maturing in three to five years.
4. Pricing is determined at time of commitment. However, you could expect a competitive variable or fixed interest rate at your option. The variable rate could include a floor (or minimum) rate and a cap (or maximum) rate with a floating range of 6% to 8%. A fixed rate would be competitive in the marketplace at time of commitment.

KES  
Mr. Robert Tall  
May 12, 1989  
Page Two

5. An option to prepay without penalty is a negotiated option.
6. Timing of principal payments could be monthly, quarterly, semi-annual or annual, depending on your cash flow requirements.

Once again, thank you for your time and the opportunity to review your request.

Very truly yours,

John R. Browning  
Vice President  
Daytona Beach

JRB:rcf

cc: Mr. Larry McDermott

May 17, 1989

Mr. Robert Tall  
 President  
 APCO  
 930 3rd Avenue  
 New Smyrna Beach, FL 32069

Dear Mr. Tall:

I appreciated the opportunity to discuss with you the possibility of structuring a bond issue to finance your new facility.

The cost savings associated with a \$1,850,000 tax-exempt bond financing for your project, at current rates, are projected as follows (figures are rounded):

	<u>Conventional Financing</u> (1)	<u>Tax-Exempt Bond</u> (2)
Rate	12.5%	7.5%
Annual Payments	\$256,000	\$180,000
Annual Savings		76,000
20-year Savings		\$1,520,000
Cost (3)		\$115,000
Breakeven Point (4)		1.5 years
Net Present Value of Savings (5)		\$532,000
Internal Rate of Return on Closing Costs (6)		66%

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- (1) Conventional loan @ prime + 1%; prime currently at 11.5%
- (2) Current tax-exempt interest rate + annual fees
- (3) \$37,000 (2% of the issue) can be financed through the bonds
- (4) Point at which interest savings surpass initial cost
- (5) \$76,000/year over 20 years, factoring in initial costs
- (6) Equivalent to investing \$115,000 to save \$76,000 for 20 yrs

There are two principal types of structures for a long-term tax-exempt bond issue: a floating rate instrument, with an option to convert to a fixed rate, and a fixed rate bond. Both issues would be for a 20 year term. The structure that I recommend, and upon which I have based these figures, is a floating rate version, since it is more likely that rates will be falling over the next several months. After rates have fallen to some extent, it may then make sense to convert to a fixed rate.

In order for your company to finance the project with tax-exempt bonds, you would have to qualify in three major areas:

- 1) To qualify under federal criteria, the company would have to be organized as a 501 (c) 3 corporation, which is the only structure of the 501 (c) group that qualifies for tax-exempt bonds.
- 2) The State of Florida has further limiting criteria. The project would have to fall into one of the categories of projects as approved by the State of Florida as qualifying for tax-exempt bonds. Currently, your line of business is in a "gray area" with regard to these criteria, and a specific determination would have to be made in your case.
- 3) Your company would have to be sufficiently creditworthy for a bank to issue a letter of credit to act as a guarantee for the purchasers of the bonds. Sun Bank has already indicated strong interest in this area.

My recommendation for proceeding is as follows:

1. Make an internal decision as to becoming a 501 (c) 3 organization; if this determination is positive, then it would make sense to proceed to step 2.
2. A determination can be made as to whether your particular line of business fits into one of the state-approved categories as eligible for tax-exempt bonds. There are some test cases in progress right now for projects similar to yours, and I am monitoring their outcome.

You would be required to pay various retainers totalling \$7,000 - \$10,000 to initiate the process, and go through step 2; the balance of the closing costs would be due at the closing of the bond issue. The estimated closing costs include all fees, including legal, exclusive of the cost of reorganizing the company's tax status to a 501 (c) 3.

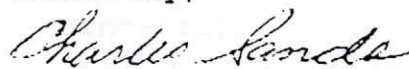
My role would be to act as a Financial Advisor to your company. I would coordinate the above plan of action, structure the issue, locate an investment banker to sell the bonds, and effect the entire bond transaction. My fees are also included in the above estimate.

I am a financial consultant, based in Ormond Beach, and I specialize in structuring long-term bond issues to finance various types of projects. I have structured approximately 50 bond issues over the past 5 years. During that time, I have had a very close association with Sun Bank, which gave me your name.

If the numbers and plan of action are of interest to you, please let me know, and I will prepare a more detailed proposal including itemized cost breakdown, qualification statement and references. We can then set up a meeting and move forward.

Again, I appreciate your interest and response and look forward to hearing from you.

Sincerely,



Charles Sands  
Kosan Econometric Systems

CAS/ccs

May 18, 1989

Mr. Robert Tall  
President  
APCO  
930 3rd Avenue  
New Smyrna Beach, FL 32069

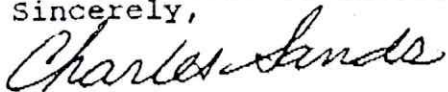
Dear Mr. Tall:

Attached are cost and savings projections for a \$1,250,000 bond issue. As you will note, there is not a dramatic reduction in associated costs for this smaller size, since many of the costs are fixed. That is why I mentioned the possibility of your company doing the larger-sized issue and reinvesting the additional funds until needed. They would earn offsetting interest; if not used within 3 years, you would simply pay off that amount of bonds, without penalty. This is something we can explore further at a later date.

One other point I would like to mention is that it is typical to build in one year of interest-only payments to assist cash flow during the construction period. The structure of principal payments is negotiable.

Please let me know if you need additional information for your meetings next week. I hope we have the opportunity to work together on this project.

Sincerely,



Charles Sands  
Kosan Econometric Systems

CAS/ccs

Case II: \$1,250,000 Bond Issue

	<u>Conventional Financing</u> (1)	<u>Tax-Exempt Bond</u> (2)
Rate	12.5%	7.5%
Annual Payments	\$173,000	\$123,000
Annual Savings		50,000
20-year Savings		\$1,000,000
Cost (3)		\$100,000
Breakeven Point (4)		2 years
Net Present Value of Savings (5)		\$326,000
Internal Rate of Return on Closing Costs (6)		50%

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- (1) Conventional loan @ prime + 1%; prime currently at 11.5%
  - (2) Current tax-exempt interest rate + annual fees
  - (3) \$25,000 (2% of the issue) can be financed through the bonds
  - (4) Point at which interest savings surpass initial cost
  - (5) \$50,000/year over 20 years, factoring in initial costs
  - (6) Equivalent to investing \$100,000 to save \$50,000 for 20 yrs