

**Indian River County
Inter-Office Memorandum
Office of Management and Budget**

TO: Members of the Board
of County Commissioners

DATE: May 12, 2020

SUBJECT: **Limited (Land Acquisition) G.O. Refunding Note, Series 2015
Consideration of Early Payoff**

FROM: Kristin Daniels
Director, Management & Budget

Background

On November 2, 2004, the voters of Indian River County approved a referendum authorizing a \$50 million bond issue for the purchase of environmental, agricultural and historic properties. On May 23, 2006, the Board of Commissioners approved and adopted the Award and Sale (Resolution #2006-067) for the Indian River County, Florida, Limited General Obligation Bonds – Series 2006 in an aggregate principal amount not to exceed \$50,000,000. This bond issue reaches final maturity on July 1, 2021, and the bonds became callable beginning on July 1, 2016.

On April 7, 2015, the Board of County Commissioners approved a partial refunding of the Series 2006 Land Acquisition Bonds. The partial refunding was accomplished through the issuance of the \$20,369,000 Limited General Obligation Refunding Note, Series 2015. The refunding resulted in debt service savings of \$1,356,323 and a net present value (NPV) savings of \$1,184,814. Early redemption of the Series 2015 Note is available any January or July 1, and the final original maturity date of July 1, 2021 remains unchanged.

Analysis

Staff has prepared an analysis regarding the payoff of the remaining principal outstanding during the current fiscal year. The note may be redeemed July 1, 2020, with no redemption fee. Of the \$7,268,000 currently outstanding, \$4,298,000 reaches maturity on July 1, 2020. This payment is already included in the current year budget. After the July 1, 2020 payment, a balance of \$2,970,000 will remain.

The debt service payments are supported by a millage rate levied by the Board of County Commissioners on all taxable property within the County. For the current fiscal year, this millage rate is 0.2568. Staff has evaluated using a combination of existing Land Acquisition Bond (note) Fund Balance with the shortfall provided by the General Fund to pay off the remaining amount outstanding. If these bonds are paid off, then the need to levy this millage is eliminated. This would provide a savings for all taxpayers of the County, which could be especially beneficial at this time considering the financial hardship some of our residents may be facing due to COVID19. Currently, reserves are available to retire this debt. The Government Finance Officers Association (GFOA) best practices include early retirement of debt as an appropriate use of fund balance. This use of fund balance is preferred to the use of fund balance to fund ongoing operations, which is not recommended. Additionally, a one-time

expenditure of fund balance is in accordance with the County’s Fund Balance and Reserve policy.

Staff has considered the opportunity cost of this decision as well. Interest earnings on any funds used to pay down the debt would be lost. However, the County is currently earning about 1.35% interest on the overall investment portfolio (April 2020 average). The Series 2015 Note carries an interest rate of 1.66% per year. Given the current economy and the recent decrease in interest rates, staff anticipates further decline in interest earnings going forward. The average portfolio yield has been decreasing anywhere from 10-40 basis points each month since January 2020. As older investments with higher interest rates mature, the interest earned on the portfolio will continue to decrease. Agency investments currently being purchased are earning 50 basis points while treasuries are earning approximately 20 basis points. The County is holding funds earning a relatively low interest rate, while paying a comparatively higher rate on the outstanding bonds. Please see the table below for an estimate of the net savings that could be realized from the early retirement of this debt. For purposes of this analysis, staff has assumed an average interest rate of 1.35% on County investments, however this interest rate is expected to decrease over the remaining life of the note which would cause the savings to increase. For instance, if the County were to earn an average rate of return of 1.0% through July 1, 2021, the net present value (NPV) savings would increase to over \$15,000.

Year	Principal Payment Due	Interest Payment (Savings)	Bond Counsel and Financial Advisor Fee (Loss)	Investment Interest Earnings (Loss)	Net Savings/ (Loss)
2021	\$2,970,000	\$49,302	(\$3,500)	(\$40,095)	\$5,707

As shown in the table above, the early payoff provides a net savings of \$5,707 for the County, and in turn the taxpayers. The county would forego \$40,095 in interest earnings on the \$2,970,000 used to pay off the debt. However, the County would no longer pay the interest on these bonds, which totals \$49,302 over the same period. Even after paying the \$3,500 in Bond Counsel and Financial Advisor fees, there is still a savings. Most importantly, the County would no longer levy the millage needed to service this debt. For the owner of a \$250,000 home (with homestead exemption), this would be an estimated savings of \$15.40 on their 2020 tax bill.

Funding

The July 1, 2020 early payoff amount of \$2,970,000, with an additional \$3,500 in financial service fees will be provided from Land Acquisition Bond (note) Cash Forward in the amount of \$1,734,275 with the remainder of \$1,239,225 to be provided from General Fund Cash Forward. The Land Acquisition Fund Balance will change slightly before the July 1, 2020 payment due to tax payments received. Therefore, these amounts are subject to change. Ultimately, the Land Acquisition Bond (note) Fund Balance will be completely exhausted before General Fund dollars are used.

Staff Recommendation

Staff recommends that the Board of County Commissioners authorize staff to redeem the remaining Limited (Land Acquisition) G.O. Refunding Note, Series 2015 in the principal amount of \$7,268,000 on July 1, 2020, and process payments of \$3,500 for financial service fees. Staff further recommends that

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the Board authorize a budget amendment to allocate funding of approximately \$1,239,225 for this transaction from General Fund Cash Forward.

Attachments

Redemption Notice
Authorizing Resolution