

**Indian River County
Inter-Office Memorandum**

Office of Management and Budget

TO: Members of the Board
of County Commissioners

DATE: June 24, 2019

SUBJECT: **Water & Sewer Revenue Refunding Bonds, Series 2009
Consideration of Early Payoff**

FROM: Kristin Daniels
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Background

The Water & Sewer Revenue Refunding Bonds, Series 2009 were issued to refinance the Water & Sewer Revenue Bonds, Series 1993A and 1993B which were then outstanding in the aggregate principal amount of \$32,695,000. The Series 2009 Bonds were issued in the principal amount of \$26,370,000, with the remaining Series 1993 Bonds not being refunded. The Series 2009 refinancing of the Series 1993A and 1993B Bonds reduced the debt service payments for the Utility by about \$125,000 per year and provided a net present value savings of \$1.4 million in 2009.

The Series 2009 bonds are callable on September 1, 2019. Once the September 1, 2019 debt service payment is made, the remaining principal outstanding will be \$11,315,000. Staff recommends paying off the outstanding balance on the call date of September 1st.

Current annual debt service for the Series 2009 Bonds is approximately \$2.9 million, with interest expense of approximately \$1.6 million over the remaining life of the bonds after the September 1, 2019 payment. The remaining Series 2009 Bonds carry an interest rate of 5.0%. Currently, the County's investments are earning about 2.1% interest per year. Should the County move forward in paying off the Series 2009 Bonds, the estimated net savings over the remaining life of the bonds will be approximately \$935,105 as shown in the table on the following page, with a net present value savings of \$893,079 or approximately 7.9% on the \$11,315,000 Series 2009 Bonds that will be called. The reduction in debt service will provide flexibility for the Utility to fund increased renewal and replacement expenses to ensure that the current infrastructure remains well maintained.

Unrestricted cash at the end of last fiscal year was \$47 million. The payoff will decrease this unrestricted balance by approximately \$11.3 million, which will leave the Utility with a relatively strong reserve. Depending upon the cost and timing of upcoming projects, additional borrowing may become necessary in the future.

Table 1
Estimated Interest Savings

Year	Principal Refunded	Interest Savings	Investment Interest Earnings (Loss)	Net Savings/ (Loss)
2020	\$2,315,000	\$565,750	(\$237,615)	\$328,135
2021	\$2,430,000	\$450,000	(\$189,000)	\$261,000
2022	\$2,550,000	\$328,500	(\$137,970)	\$190,530
2023	\$2,680,000	\$201,000	(\$84,420)	\$116,580
2024	\$1,340,000	\$67,000	(\$28,140)	\$38,860
Totals	\$11,315,000	\$1,612,250	(\$677,145)	\$935,105

Net Present Value Savings @ PV = 2.10%: \$893,079

The Utility has one other debt issuance, the Water & Sewer Revenue Refunding Note, Series 2015 with a principal balance of \$4,199,000 currently outstanding. This bank loan requires annual debt service payments of about \$1.1 million and reach final maturity in 2022. Therefore, the Series 2009 payoff will reduce the total debt outstanding from \$17.7 million to \$4.2 million. Total debt service will drop from \$4.0 million to \$1.1 million per year. The interest rate on the Series 2015 bank loan is 1.65% and therefore staff does not recommend early payoff of this series.

Funding

If approved, payoff of the outstanding principal of approximately \$11,315,000 will be funded from Utility’s cash balance.

Staff Recommendation

Staff recommends that the Board of Commissioners authorize staff to begin the process of calling the \$11,315,000 in remaining principle of the Water & Sewer Revenue Refunding Bonds, Series 2009 on or after September 1, 2019.