

Additional Item for Budget Workshop

Meeting of Tuesday, April 25, 2017

Added to outline:

#13 - Refinancing 2014 Capital Refunding Bank Loan

This document distributed April 24, 2017.

Board of County Commissioners Leon County, Florida

Fiscal Year 2018 Budget Workshop

April 25, 2017

Revised

Workshop Item Title	Item Number
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Leon County Medical Examiner Facility and Operating Contract	#2
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Consideration of Establishing a Living Wage	#5
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Refinancing 2014 Capital Refunding Bank Loan	#13

Leon County Board of County Commissioners

Additional Budget Workshop Item #13

April 25, 2017

To: Honorable Chairman and Members of the Board

From: Vincent S. Long, County Administrator

Title: Refinancing 2014 Capital Refunding Bank Loan

Review and Approval:	Vincent S. Long, County Administrator
Department/ Division Review:	Alan Rosenzweig, Deputy County Administrator
Lead Staff/ Project Team:	Scott Ross, Director, Office of Financial Stewardship

Statement of Issue:

This item recommends refinancing the County 2014 Capital Improvement Refunding Bank Loan.

Fiscal Impact:

This item has a fiscal impact. Total net present savings over the remaining eight years of the loan are estimated a \$420,000 or an average annual savings of \$60,000.

Staff Recommendation:

Option # 1: Authorize staff to conduct the necessary steps to refinance the 2014 Capital Improvement Refunding Bank Loan with the current vendor, Regions Bank.

Report and Discussion

Background:

The County competitively contracted for financial advisor services with Public Financial Management (PFM) in order to monitor market conditions and provide advice with regards to the County's financed debt. Over the past several months, County and Clerk Finance staffs have been working with PFM in evaluating opportunities to refinance a portion of the County's outstanding debt.

PFM has been monitoring interest rates and providing updates regarding opportunities for additional savings by refinancing an existing bank loan. Last week interest rates had reached a rate where refinancing the existing bank loan with the current vendor was advantageous (Attachment #1). The outstanding bank loan was last refinanced on July 8, 2014. Through that effort, the County refinanced its Series 2005 Revenue Bonds with a bank loan providing savings of \$1.7 million over the life of the loan.

Analysis:

Current analysis indicates that refinancing the 2014 bank loan with the current loan holder, Regions Bank, would provide significant saving to the County over the next eight years. The net present value (NPV) savings are estimated at \$420,000 or \$60,000 per year.

As indicated in PFM's analysis refinancing with the current vendor, allows the County to "keep favorable transaction terms negotiated in 2014..." If the County was to competitively rebid this refinancing, fluctuation in the interest rate market over the bid period could make the refinancing unattractive by the time new bids were received, and negotiations finalized (which would include increased issuance costs). As noted in the attachment, over the past several months the estimated NPV savings have fluctuated significantly:

- \$270,000 on February 17
- \$134,000 on March 13
- \$420,000 on April 19

Based on the fluctuations in the interest rate market and to maximize and ensure potential savings are realized, staff is recommending that the 2014 Regions Bank Loan be refinanced with Regions Bank with the rate locked effective, Wednesday April 26, 2017.

Options:

1. Authorize staff to conduct the necessary steps to refinance the 2014 Capital Improvement Refunding Bank Loan with the current vendor, Regions Bank.
2. Authorize staff to solicit bids in order to refinance the 2014 Refunding Capital Improvement Bank Loan
3. Board direction.

Recommendation:

Option #1.

Attachment:

1. Memorandum from the County's Financial Advisor PFM



April 20, 2017

Memorandum

To: Alan Rosenzweig, Scott Ross, Kim Ferrell and Norma Parrish, Leon County
 From: Jeremy Niedfeldt, Public Financial Management, Inc.
 Re: Updated Refunding Analysis of Capital Improvement Refunding Revenue Bond, Series 2014

As financial advisor to Leon County, Florida (the "County"), Public Financial Management, Inc. ("PFM") has previously provided a memo (dated March 6, 2017) which outlines options related to a refunding of the County's Series 2014 Bond currently held by Regions Bank, and discussed these options with the County. At that time County staff directed PFM to continue to monitor interest rates, and this memo updates the analysis of a rate reset option with Regions. The current interest rate market provides for higher savings than initially proposed, with an interest rate reset from 2.69% to 2.19% (vs. 2.35% as quoted by Regions on February 17, 2017)

	Regions Bank		
	2/17 Quote	3/13 Quote	4/19 Quote
Estimated Closing	5/10/2017	5/10/2017	5/10/2017
2014 Call Date	Vai ved	Vai ved	Vai ved
Par amount of Bonds Refunded	15,951,000	15,951,000	15,951,000
Final Maturity	10/1/2025	10/1/2025	10/1/2025
Escrow Cost (Negative Arbitrage)	-	-	-
2017 Bank Loan Rate	2.35%	2.49%	2.19%
Cost of Issuance	40,000	40,000	40,000
Net PV Savings of refunded	270,000	134,000	420,000
% Savings of refunded bonds	1.69%	0.84%	2.63%
Average Annual Savings (2018-2025)	42,000	23,000	60,000

The County has the ability to keep favorable transaction terms initially negotiated in 2014, such as no gross-up provisions for changes to corporate tax rate, no prepayment penalty after 3-years, no depository requirement, etc. Given the low current market interest rates, directly negotiating a rate reset with Regions at a competitive level also keeps the County from taking market risk and potentially realizing higher issuance and escrow costs. For example, each 0.01% increase in interest rate lowers the estimated present value savings by approximately \$9,250. In addition to market risk, costs of issuance could be as much as \$10,000 more with increased bank counsel expenses, bank commitment fees and/or escrow structuring fees. Another significant advantage of negotiating a rate reset with Regions is the bank would waive the call restriction which eliminates the need for an escrow, and the cost of negative arbitrage in an escrow for 2-months is estimated to be more than \$50,000.