SUMTER COUNTY BOARD OF COMMISSIONERS
EXECUTIVE SUMMARY

SUBJECT: Retire the 1998 Bond

REQUESTED ACTION: **Staff recommends approval**

☐ Work Session (Report Only) **DATE OF MEETING:** 6/22/2010
☒ Regular Meeting ☐ Special Meeting

CONTRACT: ☒ N/A Vendor/Entity: ________
Effective Date: _____ Termination Date: ________
Managing Division / Dept: ________

BUDGET IMPACT: Current year ~$2,108,000 for payoff and associated fees; Releases ~ $541,419 annually of pledged resources in the Sinking Fund that will flow to General Fund in FY 2010-11.

☒ Annual **FUNDING SOURCE:** General Fund - Reserve for Contingencies
☐ Capital **EXPENDITURE ACCOUNT:** Bond, Interest & Sinking - Various Accounts
☐ N/A

HISTORY/FACTS/ISSUES:

The Board of County Commissioners (BOCC) approved a bond issue in 1998 for the purpose of the advance refunding of 1990A Series Capital Improvement Revenue Refunding Bonds. The 1990A Series Capital Improvement Revenue Bond refunded the cost of 1986 Capital Improvement Revenue Bonds/$5,470,000; 1986 Capital Improvement Revenue Bonds funded the 1988 Detention Center, Health Department Clinic next to Rock Building, Courthouse Improvements (3rd Floor), and Solid Waste improvements.

Staff recommends using funds in reserve for contingencies to retire the bond issue. In retiring the bond issue, funds currently pledged to the principal, interest and reserve payments (~$541,419) will flow to General Fund creating additional recurring revenue. The revenue comes from Revenue Sharing, the Half-cent Sales Tax, and Pari-Mutual Revenue that is pledged to servicing principal and interest of existing bond issues. When the debt payments are satisfied, the surplus flows to General Fund.

When this issue is retired, there will be two active bond issues: 2003 Capital Improvement Revenue Refunding Bonds and the 2006 Capital Improvement Revenue Bonds.

The interest rate we are now earning on surplus cash is ~0.27%. The interest rates we are paying on this bond issue range from 4.75% in 2011 to 5.00% in 2016.

By using ~$2,108,000 to retire the bond, the new balance for the reserve for contingencies will be $4,240,478.

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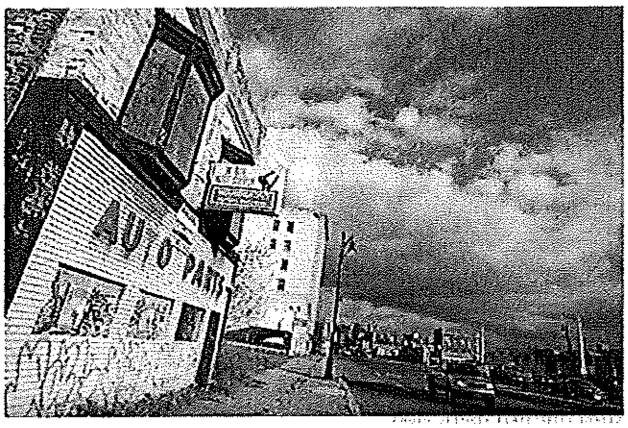
Three American cities on the brink of broke



By Sara Behunek, contributor

May 28, 2010: 1:06 PM ET

FORTUNE -- Several downtrodden cities are on the verge of defaulting on their debt, putting financially encumbered states and taxpayers on the hook to pick up the tab. The National League of Cities says municipal governments will probably come up $56 billion to $83 billion short between now and 2012. That's the tab for decades of binge spending; municipal defaults could be our collective hangover.

Municipal bonds, issued to fund public projects such as roads and public buildings, have historically been seen as one of the safest places to invest, which is why 80% of municipal bond holders are individual households and mutual fund investors, explains Jeffrey Cleveland, municipal bond analyst at Payden & Rygel Investment Management.

The average five-year cumulative default rate for investment-grade municipal bonds is less than half a percent, according to Moody's data. That's about one-third the amount of corporate debt defaults.

But municipal defaults are on the rise, and the trend is expected to continue. Last year 183 borrowers -- mostly "risky" municipal issuers, such as suburban developers in Florida -- were unable to make $6.4 billion of payments. That's way up from 31 defaults on $348 million just two years earlier, according to Distressed Debt Securities.

In the past year only one city has actually defaulted: Menasha, Wis. (Warrens, Wis. narrowly averted a default by agreeing to forbearance on a state loan.) But that could increase, says Matt Fabian, managing director at Municipal Market Advisors.

Rampant unemployment, tepid consumer spending, and deeply underfunded public pensions are the leading causes of the balance sheet issues cities are having today.

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But years of political chicanery and poor financial decision-making by city officials are what led to this problem.

These three municipalities have perhaps the most tenuous grips on staying in the black, thanks to all the above factors:

Jefferson County, Ala.

Jefferson County, Alabama's most populous county, with some 665,000 residents, is shouldering about $5 billion of debt, most of which was issued to overhaul its sewer system in the mid-1990s. But the county's real troubles stem from a 2003 refinancing of the original fixed-rate bonds and a corrupt local government that accepted kickbacks in exchange for mangling the county's portfolio.

In an effort to benefit from lower interest rates, the county switched to floating-rate bonds, much like the variable-rate mortgages that clobbered the housing industry. It also bought billions in interest rate swaps, complex financial vehicles intended to hedge against changing interest rates. Needless to say, those instruments didn't perform as advertised and actually ended up costing the county more in fees.

Most of Jefferson County's bonds are guaranteed by insurers Financial Guaranty Insurance Corp. and Syncora. But those insurers also overextended themselves d uring the boom. Syncora was unable to pony up its share of a $71 million payment due last year, and now without a net, Jefferson County has warned that a Chapter 9 bankruptcy may be in the cards.

Harrisburg, Penn.

Pennsylvania's capital owes $68 million in bond interest payments this year -- $3 million or so more than its entire annual budget. The Harrisburg Authority, the governing body that issued the bonds to construct a state-of-the-art trash incinerator, has already been unable to make several payments, and now the county government, which footed the bill last year for a $775,000 swap fee, is suing for the funds.

The authority is also indebted to the owner of the trash-burning facility, Coventa Energy, to the tune of $20 million. In April the authority also missed a $637,500 payment to Coventa, and is now in the process of negotiating a forbearance.

The mayor has said the city won't declare bankruptcy, but the governor has vowed not to bail Harrisburg out, leaving everyone wondering what options are left. In the meantime, the city is sifting through its assets, some of which include arcane Western artifacts purchased by the previous mayor with public funds, to see whether there's anything they can put on eBay before the next payment comes due.

Detroit

To make up for a 2010 budget shortfall of $280 million, Detroit issued $250 million of 20-year municipal notes in March. The issuance followed on the heels of a warning from city officials that if its financial state didn't improve, it could be forced to declare bankruptcy. Nonetheless, demand for the bonds was high, thanks in large part to a guarantee that the state would make the payments if the city became insolvent. Michigan has already proved that it has few qualms about stepping in. In early 2009 the state took over the Detroit Public School System, which was facing a budget deficit of more than $300 million. Now a governor-appointed "emergency financial manager" oversees every penny spent.

Bankruptcy and contagion risk

There's no standard operating procedure for a city or county default. In some cases the state steps in with a loan, and in others the city or county will declare bankruptcy, though that is rare. "There isn't the legal obligation," says Carl Dincesen, an independent tax-exempt-bond risk consultant.

Bankruptcy may not even be the best option, or the most efficient. The city of Vallejo, Calif. has been in Chapter 9 bankruptcy for two years. "Chapter 9 should be a final step, not a first option," Cleveland says. It opens a city up to seizure of public and perhaps even of private property, judicial oversight of city spending, state assumption of the debt, and a lien tax revenues.

Because of the rarity of such bankruptcy filings, experts seem to agree that a Greek-like contagion threat, in which exposure to bondholders is so great that a large-scale default or bankruptcy would cause a massive financial seizure, isn't likely in the U.S.

Still, a major default or bankruptcy would be a shock, just as Orange County's bankruptcy shook investor confidence in 1994. "Because economic growth prospects are bleak, [a bankruptcy would] drain resources away from service divisions and infrastructure finance," says Fabian. "It's going to be a drag on economic growth."