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2013 Installment Purchase Revenue Bonds: Just the Facts

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FIVE KEY QUESTIONS

1. What were the County’s goals?
2. Why did the County elect to pursue IPRB financing?
3. Was the IPRB Financing Plan explained to the public?
4. Is the IPRB model a sound (and legal) financing structure?
5. Has the IPRB accomplished the County's goals?

COUNTY GOALS

1. Provide a source of funding for projects designed to enhance public health and welfare of County citizens and encourage economic development

2. Fund projects while keeping millage steady, protecting County's debt capacity and without overburdening the taxpayers

3. Leverage and protect revenues from nuclear facilities

- County Council and staff developed a 10-year Economic Development Plan for economic prosperity in Fairfield County, which began with approval of the goals outlined in the "Roadmap to Success Presentation" (August 24, 2009).
- At the March 25, 2013, and April 8 , 2013, Council meetings, an update on the County's Economic Development Plan was given:
  - The presentation identified that debt would need to be issued to finance the Phase III pieces of the Plan which included public safety and quality of life elements and the following economic development infrastructure:
    - Improvements to the County's premier industrial park: Fairfield Commerce Center
    - Site improvements and construction of a speculative building in the Walter Brown II Industrial Park
    - Expansion of Water & Sewer Infrastructure in the County's industrial corridor

WHY DID THE COUNTY ELECT TO PURSUE IPRB FINANCING?

- The County wanted to balance the pressing needs identified in its Economic Development Plan against the tax burdens of its citizens. Issuing general obligation debt up to the County's full capacity or referendum general obligation debt to finance the Projects would, by State law, cause an immediate millage increase (by at least 58%).
- An installment plan of finance allows the County to aggregate revenue sources to acquire the Projects instead of requiring that property tax revenue be used to secure the County's acquisition payments.
- Further, by acquiring the Projects incrementally under an installment plan of finance, the County may issue smaller general obligation bonds, which does not require additional imposition of additional mills.

THE BASICS: WHAT IS AN INSTALLMENT PLAN OF FINANCE?

- An installment plan of finance is a method of financing the acquisition of capital assets
- An installment plan of finance has four important elements:
  1. A nonprofit entity issues debt on behalf of a political subdivision to finance and construct capital projects.
  2. The political subdivision acquires from the entity undivided incremental interests in the assets over time through installment payments.
  3. The political subdivision may use any funds available to make the installments payments (including proceeds from general obligation bonds because the political subdivision is purchasing a capital asset)
  4. The nonprofit entity pledges the installment payments from the political subdivision as security for the debt issued to finance the projects.

CONSERVATIVE ASSUMPTIONS IN FAIRFIELD’S IPRB

- No growth in County through duration of plan
  - the budgeted installment plan assumes no growth in assessed value over the lifetime of the plan
  - thus, the assumed necessary millage levy to service any general obligations bonds issued to make installment payments is likely higher than required (i.e. the County will likely have to levy less mills than assumed)
- In the model, interest rates were increased by 0.50% above average rates to ensure the County had sufficient 8% capacity over the entire installment plan to make all installment payments with only general obligation bonds
- The estimates of general obligation bonds to be issued by the County are based on the assumption that no revenue will ever be received from the nuclear facilities
  - when revenue from the nuclear facilities materializes the County’s need to issue general obligation bonds to make installment payments will diminish

WAS THE IPRB FINANCING PLAN EXPLAINED TO THE PUBLIC?

MYTH:
THE COUNTY ACTED IN SECRET TO ACCOMPLISH THE INSTALLMENT PLAN OF FINANCE

"It appears the County never explained publicly or early on the details of the role of the FFC, the intricacies of the $24 million bond's purchase/payment process or that the new semi-annual GO bonds were even coming down the pike."

-*The Voice,* September 5, 2014

" . . .Council's initial plan . . .was not explained to the public at the time . . ."

The Voice, September 19, 2014

"But [the installment plan of finance] was not spelled out for Fairfield County voters . . . ."

The Voice, April 4, 2014

". . . the County has not been open about the entire bond process."

The Voice, September 5, 2014

TRUTH: NUMEROUS PUBLIC DISCUSSIONS OF IPRB

January 14, 2013

Discussion of need for projects financed by Bonds (particularly, Peach Road)

February 6, 2013

Discussion of need for projects financed by Bonds (particularly, Peach Road)

March 22, 2013

Publication of Notice of Public Hearing on Ordinance No. 614

March 25, 2013

First reading on Ordinance No. 614 authorizing general obligation bonds to fund incremental purchase of Projects

March 25, 2013

Give presentation on Economic Development Plan which includes issuance of Bonds

March 25, 2013

County adopts Resolution in support of nonprofit bond issuance to construct projects on behalf of County

April 8, 2013

Presentation on Economic Development Plan

April 8, 2013

Public Hearing and Second Reading on Ordinance No. 614

April 15, 2013

Third Reading of Ordinance No. 614

April 30, 2013

Publication of Notice of Adoption of Ordinance No. 614

WHAT DID THOSE PUBLIC DOCUMENTS SAY?

- Resolution dated March 25, 2013:
  - described Corporation's and County's role in installment plan of finance:
    - "Corporation will. . . arrange for issuance of . . . Installment Purchase Revenue Bonds. . . "
    - "Corporation will . . . make certain improvements and renovations. . . . ."
    - "County will purchase from the Corporation the [2013 Real Property and 2013 Projects]. . . ."
  - described the Projects and cost of each

WHAT DID THOSE PUBLIC DOCUMENTS SAY?

- Ordinance No. 614:
  - identified the Projects the County wanted constructed
  - identified that the County may use a nonprofit to assist with the construction of the Projects and financing of the Projects
  - identified that the County may issue general obligation bonds to purchase incremental portions of the Projects over time
  - authorized the County to purchase the Projects
  - secured revenue received from the nuclear plants for the purpose of funding infrastructure in the County, including the Projects

IS THE IPRB MODEL A SOUND (AND LEGAL) FINANCING STRUCTURE?

- Internal Revenue Service recognizes that a nonprofit corporation whose sole activities are issuing debt to construct public buildings, collecting installment payments from a political subdivision for the use and purchase of that public building and retiring debt is a valid corporation, worthy of exemption from federal taxation.
- National bond rating agencies have consistently assigned some of their highest ratings to this method of finance, including Standard & Poors assigning an investment grade rating of "A" to the Fairfield IPRB.
- The South Carolina Supreme Court upheld the structure and it has been utilized by at least 7 other counties (Lancaster and Chester).

HAS THE IPRB FINANCING BEEN SUCCESSFUL?

- **In its 2012-2013 Accountability Report, the South Carolina Department of Commerce said that an economic development inventory is a <u>must</u> to be competitive in the industrial marketplace. A well-stocked inventory includes speculative buildings, industrial parks and certified sites.**
- **County leadership understood this need and took steps to position itself as a competitive County. Those steps include the installment plan of finance.**
- **The County's "willingness and ability to create property . . . willingness and ability to put infrastructure in the ground, to be forward thinking has positioned [Fairfield] very well in this globally competitive search for jobs and investment."**

The County Can Point to Numerous Successes

MYTH:

The general obligation bonds issued by the County to make installment payments are expensive and issued in excess of what the County needs to make the installment payments

TRUTH:

The County's installment plan of finance is actually cheaper than budgeted and the County is taking advantage of current low interest rates to prepay installment payments

INDISPUTABLE FACTS

1. IPRB has and will continue to achieve each of the County's goals, including keeping the debt service millage rate level
2. IPRB is a nationally accepted approach
3. IPRB has been utilized by a number of South Carolina counties
4. Fairfield's IPRB financing is based on very conservative assumptions
5. Fairfield's IPRB is part of larger, well-conceived plan of the County Council to promote public welfare, growth and development within the County

QUESTIONS

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