Meeting with Councilman Dave Alvord

1. Explain how cash defeasance works

   a. Can't pay off bonds until their ***call date***
      i. You have covenanted with bond purchasers not to payoff the bonds until the call date. Why?
      ii. Because bond purchasers want to make sure they have a revenue stream for a certain number of years
      iii. Normal call dates are 10-year, ***par calls*** (some 9 or 9.5 years)
      iv. County can dictate the length of the call feature when it sells the bonds
      v. Shorter call dates mean higher interest rates

   b. To cash defease bonds, the County sets its surplus cash into an unbreakable escrow account with a trustee
      i. The escrow must be large enough to include:
         1. Payment of all outstanding principal of the callable bonds on the call date
         2. Payment of the semi-annual interest payments on the callable bonds until the call date
         3. Payment of the costs to execute the cash defeasance
      ii. These costs are partially offset by earnings in the escrow account until the call date
         1. The escrow must be invested in U.S. Treasury Securities (***SLGS***)
         2. Currently earnings in an escrow provide little earnings because of the very low yields on US Treasuries
         3. The difference between the earnings in the escrow and the interest on the bonds being defeased is known as "negative arbitrage"
      iii. Once the cash defeasance escrow is properly established and funded, the County may remove the defeased debt from its books. (Only the defeased (callable) portions)

2. Show results of August 4th cash defeasance review

   a. Review assumptions
      i. Scenario is as of August 4, 2021 (Escrow SLGs as of that date)
      ii. Defeasing only callable maturities – ***not non-callable bonds***
      iii. $40,000 costs of issuance for each issue
      iv. Discount rate to calculate ***NPV*** saving is the escrow yield
      (Because the escrow yield is so low, it juices up the NPV savings)

   b. Normal refunding Rules of Thumb
      i. NPV Saving should exceed 3% of defeased principal
      ii. Negative arbitrage should not exceed 20% of NPV Savings
      (This is a measure of how efficient or inefficient the escrow is)
      iii. Costs of Issuance should not be more than 50% of NPV Savings

c. Using those rules of thumb, there are three viable candidates:
    i. Series 2012A Sales Tax Revenue Bonds
       (Total Cash Needed: $4,275,179.13)
       (Call date on February 1, 2022)
    ii. Series 2020B STRB Bonds
       (Total Cash Needed: $10,481,193.79)
       (Call date on February 1, 2030)
    iii. Series 2020 GO Bonds
       (Total Cash Needed: $8,522,491.09)
       (Callable anytime with MWC)
    iv. The County's Debt Review Committee will be evaluating these at its September meeting.

d. Most other outstanding issues have NPV Savings greater than 3%, but high negative arbitrage

e. High negative arbitrage argues for the County to wait until the call date to do the cash defeasance

3. Use of County Cash
    a. Does the County have <u>excess</u> cash to use to defease bonds?

    b. General Fund
        i. General Fund Cash has been running between 20% and 25% of revenues (Preliminary 2021 ending balance is projected at $78 million)
        ii. County policy is to maintain at least 15% GF Fund balance (If the County were to dip below 15%, its AAA/Aaa/AAA ratings would be jeopardized)
        iii. According to Moody's, the median cash balance for Aaa rated counties is 34.8% (well above the State limit of 25% for Utah counties)

    c. Other Governmental and Proprietary Funds
        i. These funds also have significant balances ($37.3 million and $62.6 million respectively), but are used by the County to support "alternative liquidity" for best practices and rating purposes

    d. COVID Stimulus Funds
        i. Legislation specifically forbids ARPA or CAREs fund from being used to pay debt service
        ii. The attorneys are exploring ways to "wash" the stimulus funds so they might be used for bond payments.

    e. Ultimately, this is a political decision with potential rating ramifications.