



FINANCE DEPARTMENT

Date: June 28, 2021
To: Mayor and City Commissioners
From: Andrew Jean-Pierre, Finance Director
Via: Greg Harrison, City Manager

Subject: Consideration of a Preliminary Agreement for the Issuance of Revenue Bonds (John Knox Village Project), Series 2021 (the "Bonds")

The City received a letter from John Knox Village of Florida, Inc. (the Village) requesting that the City serve as a conduit (lend its tax exempt status) for the issuance of Revenue Bonds, Series 2020 (not to exceed \$200,000,000). We currently have \$104,155,000 in outstanding conduit debt with them. Passage of this resolution, as well as the execution of the attached agreement will outline the roles and responsibilities of both the City and John Knox village with regard to the proposed conduit bond issue. Approval of this item does not constitute an approval of formal bond issuance or the approval of official financing documents. Such financing documents shall be presented to the City commission as a separate agenda item at a later date this year for formal commission action.

See the attached letter from the Village which provides some background on John Knox Village of Florida as well as the details on what will be financed by the Bonds.

If the Bonds are approved, the City would serve as the "Issuer" and the Village would serve as the "Borrower" with regard to the proposed Bond issue. This arrangement would in essence require the City to serve as a "Conduit" on behalf of the Village. Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party on a **tax exempt basis**. These third parties are not otherwise authorized under Internal Revenue Service (IRS) regulations to issue tax exempt obligations directly, which result in a lower cost of borrowing than taxable obligations. Although conduit debt obligations bear the name of the City as the governmental issuer, the **City has no financial obligation** for the repayment of principal/interest related to the bonds. All associated costs for this transaction will be the sole responsibility of John Knox Village of Florida, Inc. City will yield approximately \$203,500 for administrative and conduit closing fees.

The Village's credit rating was affirmed by Fitch Rating Service (Fitch) in September 2020 as an A- credit rating. This credit rating is only one of a very few Life Plan Communities to achieve an A- rating category and speaks well of the financial strength of the Village. It is unlikely that the Village would ever default on its obligation.

However, should the Village default on the bonds in the future, the City would be required to disclose this default in future bond issues undertaken by the City. That being said, the City would ensure that the marketing of any new bonds to be issued by the City and any such required disclosures make it explicitly clear that the City had no legal or moral obligations governing its conduit bond issues in an effort to minimize any potential negative market impacts.

All financing documents will be reviewed by myself, the City's Bond Counsel, the City Attorney and our Financial Advisor. Staff recommends approval.