

Opt Out Information vs General Obligation

Just the Facts

Overview:

South Dakota law offers very few options for counties when it comes to borrowing. There are two options: a general obligation bond or to enter into an Opt Out agreement.

For an Opt out, as is proposed for the Public Safety and Services Center Project, the County would Opt Out and make the payment from the County's general fund. This is a common practice in South Dakota. An Opt Out allows the County more flexibility when it comes to the source of repayment. With the Opt Out method, the County would increase taxes to fund the project *only if necessary*.

For a general obligation bond aka "GO Bond" the debt service automatically becomes a levy. If this happens the County does not have the option of paying the debt from other funds.

More about the Opt Out:

1. What is the definition of an Opt Out?
 - To Opt Out means the taxing entity (City, County, School) is asking the property owners within their respective boundaries for the authority to increase county revenues *but only if needed*.
 - The revenue would take the form of an increase in property taxes levies.
 - The Opt Out authority would remain in effect until the county debt is paid off.
 - While the Opt Out is in effect, the county *may* levy none, some or all of the Opt Out amount each year, depending on whether there is any need, and the amount of that need.
 - The Opt Out can be referred to a vote of the people.

2. What is the purpose of the Opt Out?
 - It is expected that principal and interest payments on the Public Safety and Services Center will be made from Lawrence County general fund revenues.
 - The Opt Out provides added assurance to the lenders that if for some reason County revenues fall short, the County will have a backup revenue source to keep the Public Safety Services Center from going into default.

- By having the Opt Out in place, the debt will receive a much higher investment grade rating from Moody's Investors Service, and the interest rates on the debt will therefore be much lower, saving several thousand, if not millions of dollars on interest expense.

More about General Obligation aka "GO Bonds":

SDCL 7-24-1. Purposes for which county building bonds authorized

Whenever any county having five hundred voters or more shall have been organized for four years or more and the county seat of such county has been permanently located as provided by law and the building or buildings occupied by such county for courthouse, office, or jail purposes are inadequate to the wants thereof or unsafe by reason of risk by fire or otherwise or whenever it is deemed necessary and for the best interests of said county to erect a suitable building or buildings for the care of the poor, such county may issue its bonds for the purpose of purchasing a site for a courthouse, office, or a jail building or for purchasing a site or grounds for a building or buildings suitable for the care of the county poor or for the erection of a courthouse, office, or jail, building or buildings suitable for the care of the poor under the restrictions and according to the provisions of this chapter.

Source of repayment for debt service:

7-24-18. Tax levy to pay county bonds--Proceeds placed in debt service fund
When a county issues bonds, at or before the time of doing so, the governing body thereof shall levy a continuing annual tax sufficient to pay the interest and the principal thereof when due. All taxes so levied, when collected, shall be placed in a debt service fund. No part of the fund may be used for any other purpose than to pay the interest and principal of the bonds for which they were levied and collected. The levy authorized by this section is in addition to the levy authorized in § 10-12-21.

Summary:

When weighing the two financing options for the project, the Lawrence County Commission decided that the Opt Out method for financing was the most advantageous and beneficial to the citizens of Lawrence County - both present and future. The Opt Out is like a type of insurance or "safety net" that the debt will get paid; but, the County Commission is given the option to levy in any given year, if necessary.

The GO bond option removes the Commissioners' ability to use the revenues from the jail, along with General Fund revenues, to make the bond payment and requires levying the full amount each year.

If you have any questions whatsoever, please don't hesitate to contact Sheriff Brian Dean at 605-578-2230, or via email at optoutinfo@lawrence.sd.us.