MIAMIBEACH

City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, www.miamibeachfl.gov

COMMITTEE MEMORANDUM

TO: Members of the Finance & Economic Resiliency Committee

FROM: Jimmy L. Morales, City Manager

DATE: May 1, 2020

SUBJECT: POTENTIAL DEBT REFINANCINGS

Background

As an emergency response to the COVID-19 economic crisis, the Federal Reserve lowered the federal funds interest rate by half a percentage point on March 3, 2020. Two weeks later on March 15, 2020 the Federal Reserve lowered the federal funds interest rate by a full percentage point. As a result of these actions, the federal funds rate is currently at 0% to 0.25%, which are historic lows. The federal funds rate is used as a benchmark for short-term lending for financial institutions and as a peg to many consumer interest rates on credit cards, loans, and mortgages. Given this favorable interest rate environment, the City's Finance Department is working in conjunction with the City's Financial Advisor, RBC Capital Markets ("Financial Advisor"), to identify any opportunities to achieve debt service savings from lower interest rates.

Analysis

The tax-exempt and taxable public markets have seen significant volatility and new bond issues have only recently been able to price as investors cautiously reenter the market. A public offering requires significant time to prepare for a financing due to rating agency processes and the preparation of the disclosure document for investors. Many banks are currently only making liquidity loans for clients due to overwhelming demand from corporate and government needs for cash. However, there are a few banks that are still able to make longer-term fixed rate loans that would enable the City to achieve savings from refinancing certain of its debt obligations. Bank loans would enable the City to move quickly to lock in savings as they do not require the ratings or offering documents for investors, and bank rates are very competitive compared to public offerings in the current market.

The City's Finance Team and Financial Advisor have identified the following savings opportunities, which are discussed in greater detail below. The final maturity is not extended in these potential refinancings and the savings would be realized annually. Based on current market conditions, the estimated savings from the proposed refinancings total $16.7 million and would be structured to front load savings to help mitigate the financial impact from COVID-19.

1) Combined Refinancing of Series 2010 A&B Parking Bonds and Ameresco Lease

The City's Series 2010 Parking Bonds are callable on 9/1/2020, and a tax-exempt refunding can be delivered as early as 6/3/2020. The $31.5 million in outstanding Series 2010 Parking Bonds have interest rates ranging from 4.00-5.00% with a final maturity on 9/1/2040. A bank would not currently lend on parking revenues alone, but the City can refinance the bonds with a pledge of a covenant to budget and appropriate from legally available non-ad valorem revenues ("CBA") and include excess parking revenues available under the bond resolution as available non-ad valorem revenues to pay debt service.

Because banks will not make a fixed rate loan with a final maturity of 2040, the City can refinance the Series 2010 Bonds with a shorter-term fixed rate such as 10-15 years and the same amortization. The City will need to refinance the loan at the end of the shorter-term fixed interest rate period, which would be subject to market conditions at that time, but the loan would only have 5-10 years remaining.

If refunded with a CBA as security and assuming a 2.09% interest rate through final maturity, the net present value savings from refinancing the Series 2010 Parking Bonds would be approximately $7.9 million, which is 25% of bonds refunded. To provide cash flow relief due to the impact of COVID-19, the refunding would be structured to provide upfront savings of approximately $2.3 million on 9/1/2020 and $2.5 million on 9/1/2021, and $200,000 annually thereafter. The final maturity of the refunding will not be later than 2040.

The City can combine a refunding of its $7.3 million Ameresco lease which was used to purchase energy savings equipment with the Series 2010A&B Parking refunding as one larger transaction. The Ameresco lease has an interest rate of 4.18% and is currently callable. The net present value savings on the Ameresco loan are approximately $368,000, which is 5% of the lease refunded. The savings would be approximately $300,000 on 9/1/2020 and breakeven in 2021-2025.

2) Refunding of Series 2010 Gulf Breeze Water and Sewer Bonds

The City has $40 million in outstanding Water and Sewer Series 2010 Bonds issued through the Gulf Breeze loan program that are callable on 12/1/2020, and a tax-exempt refunding can close as early as 9/2/2020. The Series 2010 Bonds have a final maturity of 2039 and interest rates of 5.00%. Because the final maturity is 2039 and the utility is an essential service, the City may be able to refinance the bonds with a bank loan with a final maturity of 2039, or with a shorter-term fixed rate (10 - 15 years) and the same amortization. The City would need to refinance the loan at the end of the shorter-term fixed rate period, which would be subject to interest rates at that time, but the loan would only have 4-9 years remaining.

The City may be able to achieve savings through a tax-exempt forward refunding or, subject to discussion with Bond Counsel, a taxable advance refunding that converts to a tax-exempt rate on 9/2/2020. The net present value savings may range from $8.4 - $9.2 million, which would be 21-23% of bonds refunded. To offset the potential decline in water and sewer revenues due to COVID-19, the refunding may be structured to provide upfront savings of $3.4 million on 12/1/2021. The average annual savings may be approximately $140,000 - $380,000.

3) Refinancing of a Portion of Stormwater Series 2017 Bonds

The City has $44.6 million in outstanding Stormwater Series 2017 Bonds that were issued with a 5 year call in 2022 to allow additional refinancing flexibility due to the elimination of tax-exempt advance refundings with Tax Reform. This portion of the Series 2017 Bonds matures in 2042 – 2047 and has interest rates of 5.00%. Because the final maturity is 2047, a refinancing may be able to be structured as a short-term fixed rate with the same amortization or may need to be refunded as taxable advance refunding bond issue until we are closer to the call date in 2022.

The net present value savings of a taxable advance refunding as a bond issue are approximately $6 million, but there is a large amount of negative arbitrage in the escrow of $3.2 million. This negative arbitrage could be additional savings if the City could earn a higher interest rate on Treasury securities in the escrow. The annual savings are currently approximately $340,000. The Administration recommends that the City monitor the cost-effectiveness of the Stormwater refunding as market conditions change and/or we get closer to the call date in 2022 for increased efficiency, which is subject to interest rate risk.

Administration does not recommend that other debt be refinanced at this time because:

- Advance refundings are no longer allowed due to changes in Federal tax law effective 1/1/2018 and most bonds are issued with a 10 year call date, so for example the Series 2015 bond issues and other Series 2017 bond issues are not callable until 2025 and 2027.

- Low Treasury interest rates in the escrows make taxable advance refunding of these bonds inefficient at this time.

- There are little to no savings from refinancing due to existing low interest rates on debt.

		Ameresco Energy Savings Lease	Series 2010 A&B Parking Bonds	Series 2010 Water and Sewer Bonds
Amount Refinanced		$7,330,000	$31,560,000	$40,000,000
Current Interest Rate		4.18%	4.91%	5.00%
Estimated New Interest Rate		2.09%	2.09%	2.90%
Net Present Value Savings		$368,000	$7,900,000	$8,400,000
Annual Savings				
	2020	$295,934	$2,300,000	$582,067
	2021	-	2,500,000	3,485,813
	2022	-	200,000	397,313
	2023	-	200,000	390,313
	2024	-	200,000	139,250
	2025	-	200,000	139,250
	2026	-	200,000	139,250
	2027	-	200,000	139,250
	2028	-	200,000	139,250
	2029	-	200,000	139,250
	2030	-	200,000	139,250
	2031	-	200,000	389,250
	2032	-	200,000	391,750
	2033	-	200,000	393,500
	2034	-	200,000	394,500
	2035	-	200,000	389,750
	2036	-	200,000	389,500
	2037	-	200,000	393,500
	2038	-	200,000	391,500
	2039	-	200,000	393,750
	2040	-	200,000	-
		$295,934	$8,600,000	$9,357,255

Note: Preliminary, estimated and subject to change based on market conditions and bank business practices. Parking and Ameresco refunding based on a 15 year fixed rate put with the same interest rate assumed for the life of the financing based on interest rates as of 4/21/20. City would need to refinance the loan at the end of the 15 years for the remaining 5 years of the loan. Water and Sewer refinancing based on a forward bond issue with market conditions as of 4/22/20 to be conservative pending discussions with banks. Actual interest rates and savings will vary.

Conclusion

Administration recommends that the City move forward with 1) refinancings of the Series 2010A&B Parking bonds and Ameresco lease as one combined transaction secured by a covenant to budget and appropriate from legally available non-ad valorem revenues, and 2) a refinancing of the Series 2010 Gulf Breeze Water and Sewer Bonds. Based on current market conditions, the estimated savings from the proposed refinancings total $16.7 million and would be structured to front load savings to help mitigate the financial impact from COVID-19.

As next steps, Administration will negotiate with lenders on the refundings to obtain term sheets and will provide resolutions authorizing the execution and delivery of the refinancings with the lenders; authorizing other actions in connection with the refinancings; and providing for effective dates. The final refinancing recommendations would go to the full City Commission for consideration and approval in June.

The City will continue to monitor the cost-effectiveness of the potential Stormwater refunding as market conditions change and move forward with that particular refinancing when it is more economically feasible.

JLM/JW