

## COMMISSION MEMORANDUM

TO: Honorable Mayor and Members of the City Commission

FROM: Jimmy L. Morales, City Manager

DATE: July 29, 2020

SUBJECT: **A RESOLUTION OF THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA, AUTHORIZING A LOAN IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$41,000,000 FROM JPMORGAN CHASE BANK, N.A., TO REFUND THE OUTSTANDING 2010 PARKING BONDS AND THE CHASE EQUIPMENT LEASE PURCHASE FINANCING; AUTHORIZING THE EXECUTION AND DELIVERY OF A LOAN AGREEMENT AND PROMISSORY NOTE TO EVIDENCE THE OBLIGATION OF THE CITY TO REPAY SUCH LOAN; PROVIDING SECURITY FOR THE REPAYMENT OF THE LOAN; AUTHORIZING THE REFUNDING OF SUCH OBLIGATIONS TO BE REFUNDED; AND THE EXECUTION AND DELIVERY OF AN ESCROW DEPOSIT AGREEMENT; APPOINTING AN ESCROW AGENT; AUTHORIZING THE EXECUTION AND DELIVERY OF AMENDMENTS TO THE TD BANK LOAN AGREEMENT AND THE RJ CAPITAL LOAN AGREEMENT; AUTHORIZING OTHER ACTIONS IN CONNECTION WITH THE LOAN AND THE REFUNDING PROGRAM; AND PROVIDING FOR AN EFFECTIVE DATE.**

### **Background**

As an emergency response to the COVID-19 economic crisis, the Federal Reserve lowered the federal funds interest rate to 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, conjunction with the City's Financial Advisor, RBC Capital Markets ("Financial Advisor"), has identified opportunities to achieve debt service savings from lower interest rates.

As set forth more fully below, the Administration proposes that the City Commission authorize a loan with JPMorgan Chase Bank, N.A. ("JPMorgan"), in an aggregate principal amount not to exceed \$41,000,000, to refund the City's outstanding Parking Revenue Refunding Bonds, Series 2010A and Parking Revenue Bonds, Series 2010B (collectively, the "Outstanding 2010 Parking Bonds") and the City's 2010 equipment lease purchase financing with JPMorgan Chase, N.A., formerly known as Chase Equipment Finance, Inc. (the "Chase Equipment Lease Purchase Financing"), which loan would be secured by a covenant to budget and appropriate from non-ad valorem revenues of the City. The details of the proposed loan are discussed more fully below.

On May 8, 2020, the Finance and Economic Resiliency Committee ("FERC") reviewed the proposed refunding of the Outstanding 2010 Parking Bonds and Chase Equipment Lease Purchase Financing, and favorably recommended that the Administration proceed with negotiations with potential lenders.

**Analysis**

The tax-exempt and taxable public markets experienced significant volatility due to the economic disruption and uncertainty caused by COVID-19. 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 enable the City to move quickly to lock in savings as they do not require 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 refunding of these obligations was recommended to the FERC on May 8, 2020, and the FERC recommended that Administration move forward with negotiating the refundings with potential lenders.

**Combined Refinancing of Outstanding 2010 Parking Bonds and Chase Equipment Lease Purchase Financing Lease**

The City's \$31.5 million in Outstanding 2010 Parking Bonds are callable on 9/1/2020, and have interest rates ranging from 4.00-5.00% with a final maturity on 9/1/2040. A bank would not currently lend with a pledge of parking revenues alone, but the City can refinance the bonds with a loan secured by 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 non-ad valorem revenues to pay debt service. The City can combine a refunding of its \$7.3 million Chase Equipment Lease Purchase Financing, which was used to purchase energy savings equipment from Ameresco, Inc. in 2010, with the Outstanding 2010 Parking Bonds (the "Refunding Program") as one larger transaction (the "Loan").

The Administration and its Financial Advisor negotiated with lenders on the refundings to obtain indicative interest rates and terms, and requested a term sheet from the bank with the most attractive combination of rates and terms, which is JPMorgan. Following are the results of these discussions with potential lenders:

**Indicative Interest Rates for Refundings  
 Outstanding 2010 Parking Bonds & Chase Equipment Lease Purchase Financing  
 05/28/2020**

Lender	Interest Rate	Structure	Prepayable?	Interest Rate w/o Prepayment Penalty	Prepayment	Considerations
JPMorgan Chase	2.08%	10 year put	Yes, w/ make-whole	2.45% w/ par call on 9/1/23 2.38% w/ par call on 9/1/25	Anytime without penalty after 9/1/23 or 9/1/25	If par prepayment structure is selected, can refinance on or after 2023 or 2025 without penalty. For all structures, if not prepaid early, must refinance at end of 10 years.
Truist (SunTrust/BB&T)	2.40%	Through final maturity (2040)	Yes, w/ make-whole	2.47%	10 year call @ 100%	No refinancing risk but higher interest rate.
	2.24%	10 year put	Yes, w/ make-whole	Would add a few basis points	n/a	Must refinance at end of 10 years.

**Other Lenders Contacted but Unable to Provide Indicative Rate or Unable to Consider CBA Credits at this Time:**

BofA	CenterState	Raymond James	Wells Fargo
BBVA	PNC	TD Bank	

The Loan will refinance the Outstanding 2010 Parking Bonds with a shorter-term fixed rate of 10 years and the same amortization as the obligations being refunded. JPMorgan's proposal is recommended as it provides the lowest interest cost through the 10 year fixed rate period. The City will need to refinance the Loan at the end of the 10-year fixed interest rate period, which would be subject to market conditions at that time, but the Loan would only have 10 years remaining. Most tax-exempt bonds with a 10 year call feature are refinanced around 10 years even though they have a longer final maturity.

Based on current market conditions and assuming a 2.00% interest rate through final maturity, the net present value savings from refinancing the Outstanding 2010 Parking Bonds would be approximately \$8.7 million, which is 28% 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 \$2.4 million on 9/1/2020 and \$2.6 million on 9/1/2021, and \$220,000 annually thereafter. The final maturity of the refunding will not be later than 2040, which is the final maturity of the Outstanding 2010 Parking Bonds.

The Chase Equipment Lease Purchase Financing lease has an interest rate of 4.18% and is currently callable. The net present value savings on the Chase Equipment Lease Purchase Financing portion of the Loan are approximately \$360,000, which is 5% of the lease refunded. The savings would be approximately \$117,000 on 9/1/2020, \$176,000 on 9/1/21 and breakeven in 2022-2025.

The interest rate for the Loan with JPMorgan will be set just before closing on August 4 and is subject to change until locked. Below is a summary of the savings based on an estimated rate of 2.00%.

	<u>Chase Equipment Lease</u>		<u>Series 2010 A&amp;B Parking Bonds</u>		
	<u>5/8/20 Finance Committee</u>	<u>7/14/20 Estimate</u>	<u>5/8/20 Finance Committee</u>	<u>7/14/20 Estimate</u>	
<b>Amount Refinanced</b>	<b>\$7,330,000</b>	<b>\$7,123,558</b>	<b>\$31,560,000</b>		
<b>Current Interest Rate</b>	4.18%		4.91%		
<b>Closing Date</b>	06/03/2020	08/04/2020	06/03/2020	08/04/2020	
<b>Estimated New Interest Rate</b>	2.09%	2.00%	2.09%	2.00%	
<b>Net Present Value Savings</b>	\$368,000	\$361,000	\$7,900,000	\$8,751,000	
<b>NPV Savings as a % of Bonds Refunded</b>	5%	5%	25%	28%	
<b>Annual Savings</b>					
	2020	\$295,934	\$117,372	\$2,300,000	\$2,435,923
	2021	-	176,685	2,500,000	2,594,423
	2022	-	-	200,000	220,376
	2023	-	-	200,000	220,376
	2024	-	-	200,000	220,376
	2025	-	-	200,000	220,376
	2026	-	-	200,000	220,376
	2027	-	-	200,000	220,376
	2028	-	-	200,000	220,376
	2029	-	-	200,000	220,376
	2030	-	-	200,000	220,376
	2031	-	-	200,000	220,376
	2032	-	-	200,000	220,376
	2033	-	-	200,000	220,376
	2034	-	-	200,000	220,376
	2035	-	-	200,000	220,376
	2036	-	-	200,000	220,376
	2037	-	-	200,000	220,376
	2038	-	-	200,000	220,376
	2039	-	-	200,000	220,376
	2040	-	-	200,000	220,376
		<u>\$295,934</u>	<u>\$294,058</u>	<u>\$8,600,000</u>	<u>\$9,217,486</u>

Note: Preliminary, estimated and subject to change based on market conditions prior to closing on August 4, 2020. Parking refunding based on a 10 year fixed rate put with the same interest rate assumed for the life of the financing. City would need to refinance the loan at the end of the 10 years for the remaining 10 years of the loan. Net present value savings for Ameresco lease are higher than the annual savings as net present value calculation discounts savings (which are breakeven in years 2021-2025) through the final maturity of the loan in 2025 to today's dollars at the loan rate. Actual interest rates and savings will vary.

Because of the character of the Loan, the prevailing market conditions, the economic conditions due to COVID-19 and the recommendations of the Financial Advisor, it was determined that the negotiation of the Loan rather than a sale through a competitive bid is in the best interest of the City.

The Resolution for the issuance of the Loan will delegate to the Mayor, relying upon the recommendation of the Chief Financial Officer and the City's Financial Advisor, the determination of various terms of the Loan, including the payment of all related costs and expenses in connection with the issuance of the Bonds and all other actions necessary or desirable in connection with the issuance of the Loan.

The Resolution authorizes the City's representatives to execute and deliver any and all documents necessary by the Resolution, the Loan Agreement, the Note, the Escrow Deposit Agreement or the Amendments, or desirable or consistent with the requirements of the Resolution, the Loan Agreement, the Note, the Escrow Deposit Agreement or the Amendments, in order to obtain the Loan, accomplish the Refunding Program and provide for the full, punctual and complete performance of all the terms, covenants and agreements contained in the Loan Agreement, the Note, the Escrow Deposit Agreement, the Amendments and the Resolution, including the execution and delivery of a tax compliance certificate and a Form 8038-G to be filed with the Internal Revenue Service.

### **Conclusion**

The Administration recommends that the City adopt the Resolution which authorizes the refinancing of the Outstanding 2010 Parking Bonds and Chase Equipment Lease Purchase Financing lease as one combined Loan secured by a covenant to budget and appropriate from legally available non-ad valorem revenues. The final maturity is not extended by this refinancing, and annual debt service is not increased in any year. Based on current market conditions, the estimated net present value savings from the proposed refinancings total \$9.1 million and would be structured to front load savings to help mitigate the financial impact from COVID-19.

JLM/JW

Exhibit "A" – Loan Agreement (including Note)

Exhibit "B" – Escrow Deposit Agreement

Exhibit "C" – First Amendment to TD Bank Loan Agreement

Exhibit "D" – First Amendment to RJ Capital Loan Agreement