



Office of the Town Manager

Rafael G. Casals
Town Manager

MEMORANDUM

To: Honorable Mayor and Town Council
From: Rafael G. Casals, Town Manager
Date: April 14, 2015
Re: Ordinance Authorizing the Refinancing of Certain of the Town's Outstanding Loans With TD Bank

REQUEST

AN ORDINANCE OF THE MAYOR AND TOWN COUNCIL OF THE TOWN OF CUTLER BAY, FLORIDA, AUTHORIZING THE BORROWING OF FUNDS IN AN AMOUNT NOT TO EXCEED \$13,000,000 FOR THE PURPOSE OF REFUNDING THE TOWN'S PROMISSORY NOTES, SERIES 2010A, B, C, D AND E; PROVIDING FOR AUTHORIZATION; AND PROVIDING FOR AN EFFECTIVE DATE.

BACKGROUND

On June 14, 2010, pursuant to Ordinance No. 10-06 adopted by the Town Council (the "Council") on June 14, 2010 and Resolution No. 10-28 adopted by the Council on May 26, 2010, the Town issued its Promissory Notes, Series 2010A, Series 2010B, Series 2010C, Series 2010D and Series 2010E (collectively, the "Prior Notes") and entered into a Loan Agreement with TD Bank, N.A. (the "Bank") in order to provide for the acquisition of vacant land and the acquisition and renovation of the Town Hall.

On September 20, 2012, pursuant to Resolution No. 12-46 adopted by the Council on September 10, 2012, the Town and the Bank entered into an Amendment to Loan Agreement in order to restructure the amortization schedules for the Series 2010B, Series 2010C and Series 2010E Notes.

The interest rates on the Series 2010A, Series 2010B, Series 2010D and Series 2010E Notes will reset in June 14, 2015 and the Town is exploring the possibility of refinancing these loans at more favorable terms. In that regard, in March 2015 the Town Council approved Resolution #15-08 authorizing the issuance of an RFP for Tax-Exempt and Taxable Loans.

Prior to the approval of this RFP by the Council in March, the Town's staff had begun preliminary discussions with the lender (TD Bank) to explore possible options to refinance the promissory notes referred to above. Negotiations continued into April and the Town and the lender came to understanding as to a proposed framework for a refinancing accommodation, which is being presented here to the Council for consideration (note - should the Council decide not to move forward with this TD Bank proposal, the Town would still be in a position to release the RFP that was authorized in March).





The framework of the proposal calls for consolidating the three tax-exempt loans (Series A, C & D) into one new tax-exempt loan and the two taxable loans (Series B & E) into one new taxable loan. The current tax-exempt loans carry interest rates ranging from 3.05% (Series A & D) to 3.81% (Series C). The current taxable loans (Series B & E) carry interest an rate of 4.42%. As discussed below in the General Terms section, the refinanced loans carry much lower interest rates and result in significant savings to the Town.

It should be noted, a key component of this deal is the inclusion of the Series C promissory note in the refinanced loan. That particular loan, while tax-exempt, carries a 3.81% interest rate and contains a “make whole” provision which provides that such note cannot be prepaid prior to maturity without the Town incurring a substantial prepayment penalty. TD Bank has offered to waive the prepayment penalty if the Town undertakes the refinancing of all of the prior notes pursuant to new loan agreements with them. If the Town Council chooses not to move forward with the refinancing with TD Bank and instead instructs staff to issue the RFP, we would have to remove the Series C loan from refinancing consideration as TD Bank would not waive the penalty on this loan if we refinance it with another lender and the prepayment penalty would essentially make refinancing of this particular promissory note with another lender unfeasible.

That said, in the opinion of Staff, and its financial advisory firm, First Southwest, the terms and conditions offered by TD Bank are competitive, result in significant savings to the Town, and provide the Town with flexibility going forward. These are summarized in the paragraphs that follow (the detail Term Sheets are included as Exhibits to the Ordinance).

General Terms:

A. Tax-exempt Loan (Bank Qualified):

Term: 15 year fixed rate

Interest rate: 2.5%

Maturity: June 15, 2030

Collateral: Secured by the Local Government Half-Cent Sales Tax

Prepayment Privilege: **Loan can be prepaid at any time without penalty**

B. Taxable Loan

Term: 10 year fixed rate

Interest rate: 2.8%

Maturity: June 15, 2025

Collateral: Secured by the Local Government Half-Cent Sales Tax

Prepayment Privilege: Loan can be prepaid after 5 years without penalty (**exception – Town can make a one-time uncheduled principal payment up to \$1.5 million any time during the first 5 years without penalty**)

The Town’s financial advisor, First Southwest, independently reviewed the TD Bank offer and is of the opinion that it is a very competitive offer and consistent with what could be expected if the RFP was issued (in March) and bids received (now, in April). They base this opinion on their vast experience in the municipal finance markets and current deals they see in the market as of today.





It should also be pointed out that TD Bank has locked in this offer (and the rates) for 30 days (from April 6th). If it is decided to forego this proposed offer and issue the RFP, there will be uncertainty as to changes in market conditions and interest rates since we would not then be in a position to lock in rates prior to 30 days in advance of the expected June 15th loan anniversary date.

A summary of the analysis of the financial advisor is as follows:

- The refinancing's produce the following savings
 - Tax-exempt refunding of Series 2010A, Series 2010C and Series 2010D
 - Reduction of interest rate from 3.11% to 2.50%
 - Total debt service savings of \$310,280
 - Estimated Net present value savings of \$261,243 (4.33% of refunded bonds)
 - Taxable refunding of Series 2010B and Series 2010E
 - Reduction of interest rate from 4.42% to 2.80%
 - Total debt service savings of \$508,808
 - Net present value savings of \$441,034 (7.04% of refunded bonds)
 - The new loans will be secured by sales tax revenues only, freeing up other potential revenue streams for future financing needs.
 - The refinancing's will allow the Town to free up \$3 million in deposits that are currently being held with TD Bank as a condition of the existing loans.
 - The proposal from TD Bank is a competitive one based upon other deals in the market; The tax-exempt interest rate of 2.50% is within the range of the market for a tax-exempt loan with an average life of 9.1 years; The taxable interest rate of 2.80% is within the range of the market for a taxable loan with an average life of 5.1 years;
 - The rates on both loans are locked in for a period of thirty (30) days, which eliminates interest rate risk for the Town in a volatile interest rate environment. It would take time for the Town was to go through a formal RFP process, exposing it to interest rate risk during that time period.
 - By agreeing to waive the prepayment penalties on the existing Series 2010C loan, this provides an added benefit to the Town on the economics of the refinancing's.

Staff would also like to point out that TD Bank won a competitive bid for a recent bond RFP issued by the City of Coral Springs, FL. Coral Springs has a AAA bond rating and received a tax-exempt rate of 2.4%. However, the terms of their loan provides for a prepayment penalty. While Cutler Bay is not “piggybacking” off of that RFP and does not have a formal bond rating, TD Bank is offering the Town a tax-exempt rate of 2.5% **with no prepayment penalty provision**. We feel that is an extremely strong offer as it provides the Town with significant flexibility going forward as this loan can be refinanced or prepaid at any time after closing without penalty (and it eliminates the onerous “make whole” provision currently attached to the Series C loan).





While the proposed terms of the taxable loan includes a prepayment penalty during the first 5 years of the loan, TD Bank was very accommodating to the Town's needs by allowing us to make a one-time, unscheduled prepayment of up to \$1.5 million dollars any time during the first 5 year period without incurring any penalty. This gives the Town flexibility in the future.

Additionally, the terms of the existing loans require the Town to maintain a depository balance at the bank in an amount equal to 20% of the outstanding principal. The Town has set aside approximately \$3 million of its reserves for this purpose. Under the terms of the new loans, the Town would move its primary operating account to the bank and this set aside provision would be waived, thereby freeing up this \$3 million from reserves. A portion of this freed up reserve can be used, with the Council's approval, to complete the improvements at Town Hall without the Town having to borrow additional funds.

SUMMARY

TD Bank has worked with the Town over these past 5 years and they have been a good partner for the Town and they have been very accommodating to the Town's changing needs. They are a strong financial institution with vast experience and presence in the municipal government markets. The terms of the refinancing offered by TD Bank are competitive in today's market (and very competitive if viewed in light of what AAA rated Coral Springs received), and this has been independently confirmed by the Town's financial advisor, First Southwest. The terms of the proposed refinanced loans bring significant financial savings to the Town, much lower interest rates, certainty (in the form of fixed rate loans), and flexibility going forward (no prepayment penalty ever on the tax-exempt loan and a modified prepayment provision on the taxable loan). Further, it must be stressed again that inclusion of the Series C loan in the refinanced tax-exempt loan is a tremendous benefit to the Town, not only for the much lower interest rate (lowered from 3.81% to 2.5%), but it eliminates that old loan's "make whole" provision and combines it into a new tax-exempt loan that has no prepayment penalty.

RECCOMENDATION

Staff recommends acceptance of the TD Bank Loan Refinance Proposal.

