



Office of the Mayor and Town Council

Rafael G. Casals, ICMA-CM, CFM
Town Manager

MEMORANDUM

To: Honorable Mayor and Members of the Town Council

From: Rafael G. Casals, ICMA-CM, CFM, Town Manager

Date: July 29, 2020

Re: Authorizing the Issuance of Capital Improvements Revenue Bonds for the Purpose of Financing Specific Costs and Providing for a Supplemental Resolution Setting Forth the Details of Said Bonds (*First Reading*)

REQUEST

AN ORDINANCE OF THE MAYOR AND TOWN COUNCIL OF THE TOWN OF CUTLER BAY, FLORIDA AUTHORIZING THE ISSUANCE OF NOT EXCEEDING \$15,250,000.00 OF CAPITAL IMPROVEMENTS REVENUE BONDS OF THE TOWN OF CUTLER BAY, FLORIDA FOR THE PURPOSE OF FINANCING THE COSTS OF IMPROVEMENTS TO FRANJO PARK, ACQUIRING VACANT LAND FOR PRESERVATION, CONSERVATION AND RESILIENCY PURPOSES, AND REIMBURSING THE TOWN FOR THE ACQUISITION OF VACANT LAND FOR THE SITE OF A NEW CIVIC CENTER AND PUBLIC PARK; PROVIDING FOR A SUPPLEMENTAL RESOLUTION SETTING FORTH THE DETAILS OF SAID BONDS; PROVIDING FOR AUTHORIZATION FOR NEGOTIATIONS; PROVIDING FOR SEVERABILITY; PROVIDING FOR CONFLICTS; AND PROVIDING FOR AN EFFECTIVE DATE.

BACKGROUND AND ANALYSIS

During the 2019-20 Fiscal Year (“FY”), the Town Council (the “Council”) of the Town of Cutler Bay (the “Town”) had a unique opportunity to secure, complete, and fund three (3) major Capital Projects (the “Capital Projects”): 1) improvements to Franjo Park; 2) acquisition of vacant land for preservation, conservation and resiliency purposes (8.45 acres property); and 3) the acquisition of vacant land on Old Cutler Road (16 acres property)

The Franjo Park Improvements Project was a result of damages from Hurricane Irma and the complete upgrades of the existing building, which was built in 1968. The costs for Park Restoration/Improvements resulted in \$2.6 Million (approved via Resolution 20-17) in addition to completing upgrades of the sports lighting into LED in the amount approximately \$485,000.00 (approved via Resolution No. 19-15). The total cost allocated to completing the Franjo Park Improvements Project is estimated at approximately \$3 Million.





The second major investment the Council approved during the 2019-20 FY was the acquisition of vacant land on Old Cutler Road for preservation, conservation and resiliency purposes (8.45 acres property). The Council entered into a Letter of Intent (via Resolution No. 20-18) in the amount of \$8.45 Million. On July 5, 2020, the Town received an appraisal of the vacant land in the amount of \$11.17 Million. Town staff is aggressively seeking Environmentally Endangered Lands (EEL) funding for this property, and completed the presentation before the Land Acquisition Selection Committee (LASC) in hopes of securing this property on the “B Acquisition List” resulting in EEL sharing 50% of the total cost.

The third major investment the Council approved during the 2019-20 FY was the acquisition of vacant land (also known as the Land Swap Deal) which was approved on July 17, 2019 via Ordinance 19-12. This investment resulted in an outlay of cash in the amount of approximately \$3.5 Million upon the closing of the transaction on January 9, 2020.

In anticipation of these three (3) major Capital Projects, the Council held a workshop on February 26, 2020 with the Town’s Financial Advisor (Estrada Hinojosa & Company Inc.) to discuss the *Fund Balance Replenishment Plan 2020-23*. Unfortunately, and shortly thereafter, the United States declared a National Emergency on March 13, 2020 due to the Novel Coronavirus Disease 2019 (COVID-19). As a result, the Town staff, Financial Advisor, and Town Attorneys have participated in several meetings since the COVID-19 shutdown to discuss the replenishment plan, including discussions as to why it is important to implement the plan sooner rather than later even though the current atmosphere of the community may not be conducive to issuance of a bond.

During the month of July, Town staff along with the Financial Advisor, have met individually with members of the Council to review alternatives since two of the three (3) major projects are currently active, more specifically the acquisition of vacant land on Old Cutler Road for preservation, conservation and resiliency purposes and the restoration work on Franjo Park.

Since the 2014-15 FY, the Town has experienced annual fund balance deficits in four of the past five fiscal years, although the amount of the deficit has been less than the deficit budgeted for those years (i.e., the “planned” dip). The table below shows the operating results of the General Fund for the past five fiscal years versus the budget (*see chart below*):

GENERAL FUND		
	Budget (originally adopted)	Actual
	Fund Balance Surplus (Deficit)	Fund Balance Surplus (Deficit)
FY 2014-15	(3,445,772)	(865,675)
FY 2015-16	(3,786,628)	(403,166)
FY 2016-17	(3,461,737)	(1,778,740)
FY 2017-18	(4,411,581)	617,680 (Actual Surplus for FY 2018)
FY 2018-19	(2,926,802)	(459,882)





Town staff understands the Council's desire to set a millage rate with as little impact to the community as possible, however, the rate set these past five fiscal years were not sufficient for the Town to operate at a balanced budget. As a result, deficits were incurred and fund balance reserves were negatively impacted. While the Town ended FY 2018-19 with adequate fund balance reserves, these three significant Capital Projects will quickly deplete the Town's reserves unless measures are undertaken to stabilize the operating budget and replenish the reserves for the amounts spent on these three major Capital Projects.

The chart below reflects the projected FY 2020 utilization of available FY 2019 reserves of approximately \$17.6 Million. As shown in the table below, in addition to the Capital Projects previously mentioned, utilization of fund balance reserves for the planned dip for the 2019-20 FY and the payoff of certain existing debt, the Fund Balance reserves are projected to decline to approximately \$3.9 Million. This does not take into account any adverse, unknown revenue impacts resulting from COVID-19. For several reasons, Town Staff have concern with fund balance reserves decreasing so dramatically.

First, reserves of approximately \$3.9 million, while significant, are barely above that required to be maintained for contingencies and emergencies by the Town's Fund Balance Ordinance (based on this Ordinance, the minimum reserve required based on the adopted FY 2019-20 adopted budget was \$3.26 million). Second, we are currently in hurricane season and the Town needs to ensure that adequate reserves are on hand should a disaster hit. Finally, reserve thresholds need to be maintained to ensure no adverse impacts to the Town's credit rating (rating agencies generally like to see reserves equal to at least 30% of operating revenues). Reserves of \$3.9 million (or less) would not meet this rating company metric.

Part of the FY 2019-20 utilization of Fund Balance reserves includes the payoff of TD Bank Series 2015 B Loan, a taxable interest rate loan carrying a higher interest rate than other Town debt. As this loan pertained to the Cutler Bay Town Center Building that is no longer owned by the Town, Town Staff is recommending to payoff this debt. Debt service on this particular loan would be approximately \$620,000 in FY 2020-21 and this would be saved if the loan were paid off.

	FY	2020
Fund Balance	Fund Balance, beginning	17,600,000
	Town Hall Land Swap	(3,473,298)
	Franjo Park	(1,450,000)
	9-acre land purchase	(3,000,000)
	Series 2015 A Ref.	
	Loan Proceeds 2021	
	Payoff Series 2015 B	(2,971,229)
	Bgt Shortfall Net of DS Savings	(2,778,525)
	Fund Balance, ending	3,926,948





During these financial times, interest rates are at extremely favorable levels and the Town has an opportunity to issue a Revenue Bonds in the open market to fund the Capital Projects previously discussed and to replenish our Fund Balance reserves. While interest rates fluctuate based on market and other conditions, rates are currently at below 2% levels for issuers with strong credit ratings. However, timing is critical since, historically during a national election year, the financial markets can be volatile creating uncertainty if the Town were to delay the issuance of the Revenue Bonds and “go to market” after October 2020.

The attached Ordinance is intended to provide Town staff guidance and authorization to obtain formal bids for our bond loan issuance. The preliminary timetable listed below is presented for consideration so that the issuance can occur prior to the national election.

Proposed Financing Timeline	
First Reading of Ordinance	7/29/2020
Second Reading of Ordinance	8/26/2020
Pricing	10/13/2020
Closing	10/30/2020
2020 Elections	11/3/2020

Without change to the Town’s debt structure, debt service payments for FY 2020-21 with our existing loans is \$1,759,048. If the Council adopts this Ordinance and the debt restructuring plan presented at the July 29, 2020 Council Workshop, the projected debt service payments for FY 2020-21 would approximate \$1,292,779, which amounts to an approximate budget savings of \$466,269 for FY 2020-21.

As a result, the Town staff and Financial Advisor are recommending the Council take advantage of the market’s current low interest rates to fund the Capital Projects discussed above and to replenish the Town’s Fund Balance reserves by authorizing, in accordance with the provisions of the Charter of the Town and Chapter 166, Florida Statutes, the issuance of Revenue Bonds in an amount not to exceed \$15,250,000.00, in one or more series, for the purpose of financing the costs of improvements to Franjo Park, acquiring vacant land for preservation, conservation and resiliency purposes, and reimbursing the Town for the acquisition of vacant land for the site of a new civic center and public park, financing architectural, engineering, environmental, legal and other planning costs related thereto, and paying costs of issuance of the bonds.





RECOMMENDATION

It is recommended that the Town Council adopt the attached Ordinance on Second Reading, which authorizes the Town Manager, the Town Finance Director, the Town Attorney, Bond Counsel to the Town and the Financial Advisor for the Town to negotiate with banks, investment banks or other financial institutions for the purchase or underwriting of the Revenue Bonds and with respect to the terms of the Revenue Bonds. Additionally, authorizing the Town Attorney and Bond Counsel to the Town to draft documents and to do all other things necessary to accomplish the issuance and sale of the Revenue Bonds.

