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June 12, 2017

Recommendation Memorandum

To: Neal DeJesus, Interim City Manager
Laura Thezine, Acting Finance Director

From: Jay Glover, Managing Director – PFM Financial Advisors LLC

Re: City of Delray Beach, Florida – Capital Improvement Revenue Bond, Series 2017 – Recommendation Memo

PFM Financial Advisors LLC (“PFM”) was engaged by the City of Delray Beach, Florida (the “City”) to serve as financial advisor for the City’s proposed issuance of its’ Capital Improvement Revenue Bond, Series 2017 (the “2017 Bond”). The 2017 Bond will be issued for the purpose of providing funds, together with other available funds of the City, to pay for capital expenditures relating to the planning, design, permitting, and construction of certain public infrastructure projects. Based on the size (not to exceed \$31.5 million), term (approximately 9.5 years) and recent aggressive bids received from banks for comparable transactions; PFM recommended the City pursue a privately placed direct bank loan, which in today’s market conditions was expected to be the most efficient and cost effective method of financing.

At the City’s direction, PFM distributed a Request for Proposals (“RFP”) to a list of local, regional and national financial institutions to identify the lending institution that could provide the City with a fixed rate, non-bank qualified term loan at the lowest overall borrowing cost and terms most favorable to the City. Prior to the submittal deadline (June 7, 2017) the City received eight (8) proposals from the following firms: Bank of America, Capital One Public Funding, Florida Community Bank, JP Morgan Chase Bank, Pinnacle Public Finance, PNC Bank, State Street Public Lending Corp. and SunTrust Bank. A summary of each proposal is included as Exhibit A.

Based on the PFM’s review and discussions with City staff and Bond Counsel, it was determined that Bank of America provided the best combination of interest rate and terms most favorable to the City. Their proposal provided for an indicative interest rate of 1.92%. The final fixed interest rate will be set 2 days prior to the closing of the 2017 Bond based on the formula provided within their proposal. A key differentiating factor of the Bank of America proposal is the only post-closing interest rate adjustment language is for a determination of taxability due to action or inaction of the City. Many of the other proposals also including language that would allow the lender to increase the interest rate on the 2017 Bond if the federal maximum corporate tax rate was reduced from its current



35% rate. The final aspect of the Bank of America proposal that was considered as part of this recommendation were the optional prepayment terms. If the City elected to prepay all or a portion of the 2017 Bond prior to its scheduled maturity, the City could be subject to a breakage fee. Given the short term of the 2017 Bond (9.5 years) and very low fixed interest rate, it is unlikely that the City would elect to prepay the 2017 Bond prior maturity. Therefore, it was determined that paying an interest rate premium for more flexible optional prepayment provisions was not financially advantageous.

Based on the indicative fixed interest rate formula and acceptable terms and conditions provided in their proposal, PFM recommends selecting Bank of America as the loan provider for the 2017 Bond. We look forward to discussing this recommendation at the City Commission meeting on June 20.

Exhibit A

	Bank of America Merrill Lynch	Capital One Public Funding	Florida Community Bank	JP Morgan
Proposal Requirements				
Contact Information	Holly Kuhlman Senior Vice President E: Holly.kuhlman@bamf.com P: (239) 598-8805	Jacqueline Bretz Vice President E: jaci.bretz@capitalone.com P: (631) 457-9582	Rafael Borrero Vice President E: rborrero@fcb1923.com P: (305) 669-6334	Ralph Hildevert Executive Director E: ralph.hildevert@jpmorgan.com P: (305) 579-9320
Loan Amount Pledged	\$31,500,000	\$31,500,000	\$31,500,000	\$31,500,000
Final Maturity	10/1/2026	10/1/2026	10/1/2026	10/1/2026
Tax-Exempt Fixed Interest Rate	Indicative: 1.92%	Fixed: 2.55%	Fixed: 2.30%	Option 1 Indicative: 2.23% Option 2 Indicative: 2.34%
Calculation	61 month interest rate swap for a fixed rate for a swap with 3 month Libor plus a 10 bps credit spread	N/A	The rate is indexed to 10-Year Treasury Constant Maturity plus 142 bps with a floor of 2.30%.	Not Provided
Rate Locked to Closing, or Date to be set	Actual rate set 2 days prior to closing using the above formula	The rate may be subject to change if the contemplated Loan is not closed by 7/7/2017	Rate will be held until 6/30/2017. If closed after this date the above formula will apply.	The rates are subject to change daily until a written rate lock agreement is executed between the City and the Bank.
Rate Adjustment Language	Upon the determination of taxability as a result of action or inaction of the City, the interest rate will be the product of the tax-exempt rate and a current taxable rate factor of 1.54. Determination of taxability does not include changes to the Internal Revenue Code.	Gross-up for determination of taxability due to action or inaction of the City	1) Gross-up for determination of taxability 2) Interest rate subject to increase in the event of decrease in Maximum Federal Corporate Tax Rate	1) Gross-up for determination of taxability as a result of action or inaction of the City 2) Interest rate subject to increase in the event of decrease in Maximum Federal Corporate Tax Rate (this provision can be removed for additional 12 bps)
Prepayment Options	Prepayments are permitted at any time with three business days' prior notice. All prepayments will be subject to a prepayment penalty (breakage fee).	No call until 10/1/2021, then in whole at par on any interest payment date Partial Prepayment: allowed on any interest payment date throughout life of the Loan: (i) from proceeds other than refunding sources; (ii) once per calendar year per transaction; (iii) in a minimum amount of \$1,000,000; (iv) in a maximum amount of \$5,000,000; and (v) provided that any such prepayment is applied to outstanding Loan principal in inverse order of maturity.	The City may prepay in whole or in part, at any time without penalty.	Option 1: Make Whole Call Option 2: Callable at par on or after 10/1/2021
Legal/Other Fees	Bank Counsel fees are fixed at \$6,500 plus disbursements.	None	Bank's counsel fees are fixed at \$6,500.	Legal fees estimated at \$6,500.
Other Conditions	1) During the continuance of any default, the rate shall be increased by 6% 2) Existing anti-dilution tests required coverage shall be 1.50x 3) Any payment more than 15 days late, the Bank may impose a late fee of 4% of the amount due. 4) Audited statements are due within 270 days after the close of each fiscal year. The City must provide approved budgets, when they are available. 5) The existing Resolution R-76-99 Section G provides a provision in which the exercise of any remedy is subject to the consent of the Credit Facility Issuer. The Bank will not agree to this provision. 6) Downgrade of the City's general obligation debt below investment grade shall trigger the default rate	1) Upon request, the City shall send COPF a copy of its audited financial statements within 270 days of FY end. 2) Term Sheet expires on 6/14/2017 if not accepted by then. Once accepted, Term Sheet shall expire if the transaction has not closed by 7/7/2017 3) Subject to final credit approval	1) No additional covenant to budget and appropriate debt may be issued unless net available Non-Ad Valorem Revenues for the prior fiscal year are at least 125% maximum annual debt service on all debt payable from Non-Ad Valorem Revenues, including the proposed debt. 2) The CAFR is due within 210 days of the Fiscal Year end and the Annual budget is due 45 days after adoption. 3) The Default rate is lesser of 5% plus the Bank's Prime Rate or the maximum interest rate allowed by law. 4) If the bank is selected as the provider a Letter of Commitment must be provided within 10 days. The terms and conditions outlined in the proposal are in effect until 8/1/2017	1) The finalization of the amortization schedule would be precedent to the Purchaser's acceptance of a written rate lock agreement. 2) The base rate is the higher of a) Bank's Prime Rate b) 2.50% plus one month adjusted Libor 3) Default Rate: Base Rate + 4.00% 4) The City is required to submit in electronic format acceptable to the purchaser a) Receipt of CAFR within 210 days of the fiscal year end b) additional information as requested from the Bank 5) Anti Dilution as outlined in Resolution R-76-99

	Pinnacle Public Finance	PNC	State Street	SunTrust
Proposal Requirements				
Contact Information	Blair Swain Senior Vice President E: swainb@ppf-inc.com	Nick Ayotte Vice President, Public Finance E: nicholas.ayotte@pnc.com	Thomas Henderson Vice President E: tahenderson@statestreet.com P: (617) 664-1064	Leslie L. Downs First Vice President E: leslie.downs@suntrust.com P: (561) 835-2677
Loan Amount Pledged	\$31,500,000	\$31,500,000	\$31,500,000	\$31,500,000
Final Maturity	10/1/2026	10/1/2026	10/1/2026	10/1/2026
Tax-Exempt Fixed Interest Rate	Fixed: 2.37%	Indicative: 2.057%	Option 1: Indicative 1.61% (Subject to Corporate Tax Rate Gross-Up) Option 2: Indicative 1.93% (No Gross-Up)	Fixed: 1.91%
Calculation	N/A	Not Provided	Not Provided	N/A
Rate Locked to Closing, or Date to be set	The rate is valid through 7/7/2017	The Rate is indicative as of 6/7/2017. The rate will be set, based on the Banks COF, 3 days prior to the funding date. If City wishes to lock an indicative rate at any time, the rate will be updated by the Bank and a Rate Lock Letter, together with an approving Resolution, can be executed.	Indicative rates are as of 6/6/2017 and are subject to change. Actual rate will be set 5 days prior to closing	Rate locked until 7/6/2017
Rate Adjustment Language	The Bank requires a "Gross-Up" provision in the event that the loan become taxable due to actions or omissions of the City. Taxable Rate is 3.65%.	1) Gross-up for determination of taxability 2) Interest rate subject to increase in the event of decrease in Maximum Federal Corporate Tax Rate	The fixed rate is subject to adjustment upon a) Event of Taxability, b) change in corporate tax rate by application of the Margin Rate Factor and c) other factors related to Dodd Frank and Basel III that are imposed on the bank	The City will be subject to yield increase in event of decrease in maximum corporate tax rate. Rate capped at 2.35% for prepayment option 1 and 2.84% for prepayment option 2. This language can be removed for 30 bps on prepayment option 1 and 37 bps on prepayment option 2. Determination of taxability provision.
Prepayment Options	Loan is subject to prepayment in whole any time. Loan is subject to prepayment in part one-time per year on a payment date in a maximum amount of \$5 million at a price equal to par plus a \$500 re-amortization fee. Upon mutual agreement the prepayment will be applied on a pro-rata basis or inverse order of maturity.	Prepayment is allowable at any time within the guidelines of the Bank's Standard Make Whole Provision.	Prepayment premium as outlined in the Exhibit A of proposal	Option 1: Make Whole Provision Option 2: Prepayment in whole after 1 year without penalty for an additional 40 bps
Legal/Other Fees	\$7,500	Legal fees capped at \$9,000	Legal fees are capped at \$25,000. Amendment fees of \$2,000 will be applicable.	Legal fees are capped at \$9,500.
Other Conditions	1) The Bank requires a completed executed copy of the transcript by noon the day prior to funding. (Scanned is acceptable) 2) The Bank requires an IRMA letter confirming the role of the Advisor in the transaction 3) The proposals has been credit approved. 4) The CAFR is due within 210 days of the close of the fiscal year. The Bank may request other financial information. (subject to negotiation) 5) The default rate is 6% and becomes 7% if the transaction becomes taxable. (subject to negotiation) 6) The Bank requires an Additional Bonds Test/ Anti - Dilution requiring a minimum coverage of 1.20x (Subject to negotiation) 7) Loan proceeds deposited in a 3rd party escrow account or deposited in a segregated account.	1) Default Rate: Prime + 3.00% or maximum allowable by law, whichever is less 2) Annual audited financial statements required, as per Article III Section 4 of Resolution R-76-99 3) Proposal expires on 6/20/2017 and the Facility must close no later than this date unless otherwise extended by the Bank in writing. If applicable, Rate Lock Letter provisions will also apply.	1) Default Rate: Fixed Rate + 3.00% 2) Interest Rate Clawback Provision and accelerate upon event of default 3) If rating on any general fund debt falls below A3/A-, bond will be subject to default rate 3) Borrower must maintain public ratings on its general obligation debt from at least 1 of the major 3 agencies during term of loan 4) Must provide audited financials within 180 days of fiscal year end, quarterly sales tax receipts reports within 30 days of each fiscal quarter, and all or any other information as may be reasonably requested by Bank 5) Proposal may be rescinded upon any adverse material change 6) Subject to final credit approval 7) Proposal will expire if not extended by 6/30/2017	1) The City must agree to an auto debit account for payments due under the loan. 2) Security: Option A: Note will be secured solely by a CB&A non-ad valorem revenues. Option B: Note will be secured by a sales tax revenues with a back-up CB&A 3) Default Rate: Option A & B: lesser of Prime + 8% or maximum allowed rate by law 4) Anti Dilution Test: Option A: 1.10x; Option B: 1.35x 5) Financial Statements within 270 days of fiscal year end & annual budget within 30 days of adoption