




CITY MANAGER'S OFFICE


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DATE: March 30, 2022

TO: Mayor, Vice Mayor and Commissioners of the City of Pompano Beach, Florida and Board of Directors of the Pompano Beach Finance Corporation

FROM: Suzette Sibble, Assistant City Manager 

VIA: Greg Harrison, City Manager 

RE: Not Exceeding \$25,500,000 in aggregate original principal amount of the Refunding Certificate of Participation, Series 2022 (Federally Taxable) Evidencing an Undivided Proportionate Interest of the Owner Thereof in Basic Rent Payments to be Made under a Master Lease-Purchase Agreement (Parking Master Lease Program) by the City of Pompano Beach, Florida (the "Series 2022 Certificate")

Background

Pursuant to Ordinance No. 2015-30 enacted by the City Commission of the City on April 14, 2015, the City determined it was necessary and in the best interests of the City, to lease-purchase, finance and refinance, all or in part, the acquisition, construction and installation of a new public parking garage (commonly referred to as the "Pier Parking Garage") and appurtenant public facilities and related public improvements, including roadways, water, sewer and drainage facilities, landscaping and on-street parking spaces (collectively, the "Series 2015 Project").

The Series 2015 Project was financed, all or in part, with net proceeds of the \$23,875,000 Taxable Certificates of Participation (Parking Garage Project), Series 2015 Evidencing Undivided Proportionate Interests of the Owners Thereof in Basic Rent Payments to be Made by the City of Pompano Beach, Florida, As Lessee, Pursuant to the Lease Purchase Agreement with Pompano Beach Finance Corporation, as Lessor (the "Series 2015 Certificates").

In connection with the Series 2015 Certificates, the City, the Pompano Beach Finance Corporation (the "Corporation") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), as applicable, entered into a variety of financing documents (collectively, the "2015 Financing Documents") to provide for the lease-purchase financing of the Series 2015 Project, including a Lease-Purchase Agreement between the City, as lessee and the Corporation, as lessor. The Series 2015 Certificates were publicly sold by an underwriter selected by the City. The Series 2015 Certificates were issued on June 10, 2015.

The lease payments, and consequently, the payments due with respect to the Series 2015 Certificates, do not constitute indebtedness of the City. Rather, the Series 2015 Certificates are payable solely from legally available revenues of the City budgeted and appropriated each year by the City to make lease payments under the Lease-Purchase Agreement.

The Corporation

The Corporation was formed solely for the purpose of facilitating lease purchase arrangements, such as the financing of the Series 2015 Project. The sole member of the Corporation is the City. The sole members of the Board of Directors of the Corporation are, ex-officio, the members of the City Commission of the City from time to time. The Mayor serves as the President of the Corporation, the Vice-Mayor serves as the Vice-President of the Corporation, the Finance Director serves as the Treasurer of the Corporation and the City Clerk serves as the Secretary of the

Corporation. The Corporation only has a nominal role in any financing. It is required to have an annual meeting to elect Board members and officers. In addition, the Corporation, by resolution, is required to approve the various documents to which it will be a party in connection with the financing of any project. The administrative costs associated with the Corporation are nominal.

Proposed Refinancing of Series 2015 Project

The City's municipal financial advisor has advised the City's Finance Team that, based on current market conditions, there is an opportunity to realize aggregate present value interest rate savings by accomplishing the advance refunding and defeasance of the Series 2015 Certificates, which are outstanding as of the date hereof in the principal amount of \$22,775,000 (the "Refunded Certificates"). The City's municipal financial advisor has estimated present value savings of around \$2.2 million, or 9.65% as a percentage of the refunded obligation. The 9.65% is well above the minimum of 5% required by the City's debt management policy, as adopted by the City Commission. On a gross basis, this estimates that the City will save approximately \$200,000 per year over the remaining life of the refunded obligation. It is highly recommended to move forward with the proposed refunding at this point to realize significant savings now, while in a rising interest rate environment, as well as to provide an opportunity to rewrite trust documents to make room (potentially) for a future new structure. The recommended private placement structure with Truist Bank allows the City to lock in interest rates much sooner than a comparable public offering, and also saves the City time and money with regards to an official statement and ratings.

Accordingly, the City's Finance Team is proposing the issuance of the Series 2022 Certificate. The proceeds of the Series 2022 Certificate will be applied, together with other available funds held by the Trustee with respect to the Refunded Certificates, for the purpose of accomplishing the advance refunding and defeasance of the Refunded Certificates and paying costs of issuance of the Series 2022 Certificate.

The City invited qualified financial institutions to submit proposals to make a loan to the City to accomplish the refunding of the Refunded Certificates. Truist Bank, submitted a proposal that contained terms and conditions consistent with the request for proposals. The final details of the Series 2022 Certificate will be determined by the City's Finance Team, in consultation with the City's municipal financial advisor, when the final amount to be deposited to the escrow fund to accomplish the refunding of the Refunded Certificates is determined, subject to the following parameters: (i) the aggregate principal amount of the Series 2022 Certificate shall not exceed \$25,500,000; (ii) the final maturity date of the Series 2022 Certificate shall be January 1, 2040 (the same final maturity date as the Refunded Certificates); (iii) the interest rate per annum on the Series 2022 Certificate shall be a fixed rate of interest equal to 3.40% per annum; and (iv) the Basic Rent Payments shall be subject to optional prepayment, without prepayment premium, in whole but not in part, on any date on and after January 1, 2031.

The lease payments, and consequently, the payments due with respect to the Series 2022 Certificate, will not constitute indebtedness of the City. Rather, the Series 2022 Certificate will be payable solely from legally available revenues of the City budgeted and appropriated each year by the City to make lease payments under the Master Lease-Purchase Agreement described below.

If an event of default or an event of non-appropriation occurs with respect to the Series 2015 Project, the City must peaceably vacate and return possession of the portion of the Series 2015 Project comprising the Pier Parking Garage to the Corporation, or its assignee or designee, no later than the end of the then current lease term. Thereafter, the Corporation, through the Trustee, may exercise remedies with respect to the Pier Parking Garage, including attempting to re-let the Pier Parking Garage to a third party and receiving revenues from use arrangements, as hereinafter described, relating to the Pier Parking Garage for the remaining term of the ground lease, which will automatically be extended for an additional ten-year period following the scheduled maturity date of the Series 2022 Certificate, subject to the following conditions: (i) the Pier Parking Garage must always be used for public parking and remain subject to applicable City ordinances establishing parking rates, fees and charges; and (ii) any use and management arrangements in effect at the time of surrender, including license, lease and sublease arrangements and

contracts with the City's parking manager, will remain in effect in accordance with their respective terms through the term of the ground lease.

Master-Lease Purchase Financing Structure

In 2015, the City's Finance Team determined that the most viable and cost-effective means of financing the Series 2015 Project was through the issuance of the Series 2015 Certificates, rather than City revenue bonds. Among other factors, the City's charter restricts the issuance of City revenue bonds to those related to a self-liquidating project. The City's municipal financial advisor advised the City's Financing Team at the time of issuance of the Series 2015 Certificates, and continues to so advise, that the parking enterprise fund is still too new to support a revenue bond structure from a credit standpoint.

Accordingly, it is appropriate to refinance the Series 2015 Project through the issuance of the Series 2022 Certificate rather than a revenue bond. Moreover, it is possible that at the time the City determines to finance additional significant parking projects, such as those included in the proposed Oceanside Project, there may still be an insufficient collection history to enable the City, from a credit standpoint, to issue revenue bonds secured by a pledge of parking revenues deposited to the parking enterprise fund.

In view of the foregoing, the City's municipal advisor has advised the City's Finance Team that it may be beneficial, from a credit standpoint, to finance such future parking-related improvements under a master lease-purchase financing arrangement, together with the Series 2015 Project, on a subject to annual appropriation basis, which provides that the City shall not budget and appropriate for a portion of the projects leased pursuant to the master-lease financing arrangement; it must budget and appropriate lease payments for all of the projects or none of them.

To facilitate such potential financing structure, upon issuance of the Series 2022 Certificate, the 2015 Financing Documents will be amended and restated, or replaced entirely by, the Master Lease-Purchase Agreement (Parking Master Lease Program) dated as of May 1, 2022 (the "Master Lease Agreement") between the City, as lessee and the Corporation, as lessor, among other related documents (collectively, the "Master-Lease Financing Documents").

In connection with any project that may be financed in the future under the Master Lease Financing Documents (in addition to the Series 2015 Project), the City's Finance Team, in consultation with the City's municipal financial advisor, and the lender or underwriter with respect to such project, will determine the remedies that may be exercised with respect to such project upon an event of default or an event of non-appropriation under the Master Lease Agreement. Any such remedies will be set forth in documents supplementing the Master Lease Financing Documents and be subject to approval by the City Commission of the City and the Board of Directors of the Corporation.

Certificates of Participation Generally

It should be noted that upon an event of default non-appropriation under the Master Lease Agreement, the City may have difficulty in accessing capital markets to obtain bond financing for its other projects. In this respect, even though certificates of participation are not legally considered debt, for all practical purposes, the City should treat the required lease payments as such so as not to impede the City's credit standing in the marketplace.